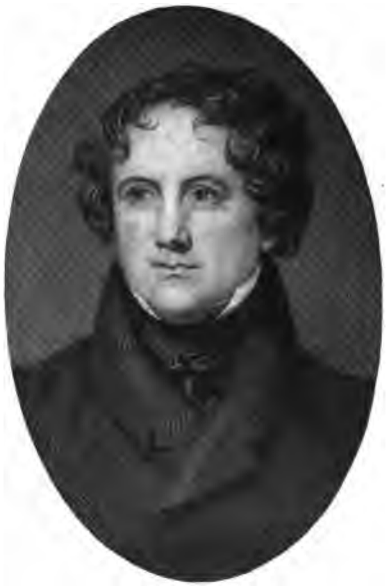
THE STORY OF A BANK

WILLIAM HORACE BROWN



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THE STORY OF A BANK

An Account of the Fortunes and Misfortunes of the Second Bank of the United States, with a preliminary Sketch of the First Bank

By

WILLIAM HORACE BROWN

Including an Introduction by
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THE GORHAM PRESS
BOSTON

The Gorham Press, Boston, U. S. A.

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INTRODUCTION

By George E. Roberts

THE agitation now going on in the United States for important changes in the banking and currency system gives especial interest at this time to a study of our early financial history. It is instructive to know when and how we were switched off the course followed by nearly all other countries in their banking development, and how our system differs in organization and efficiency from the systems of other countries.

When Alexander Hamilton faced the problem of providing the young republic with a currency system, and also with a fiscal agency that would be a right arm to the Treasury, he naturally turned for a model to the Bank of England which had demonstrated the usefulness of a great bank of issue, both to the government and to the public. Since then all of the other countries of Europe, one by one, have followed Hamilton in the establishment of similar institutions. They differ in some details of organization and policy, but the general scheme of a great banking institution, handling all of the financial transactions of the government, serving as a correlating link

between the Treasury and the banking and business community, and supplying in its notes the paper currency of the country, has won its way from country to country on its practical merits, until it has been adopted almost everywhere.

In the exercise of the functions referred to, these institutions act as government agencies, performing public services which Treasury officials by the very limitations of their positions are unable to perform so well. It is the general banking relations which these institutions hold with the public, and with the banking systems of their countries, that enable them to discharge these functions with superior efficiency, but these relations afforded the basis for an attack upon Hamilton's plan on constitutional grounds. Congress had no authority, it was urged, to charter a bank to carry on a banking business. This was the principal argument against the first bank of the United States. The proposal carried, however, and the bank was chartered for twenty years. When the charter expired in 1811, Hamilton was dead, and the Federalist party had gone out of power. Albert Gallatin, Secretary of the Treasury, and the ablest financier of the time, although wholly out of sympathy with Hamilton's political views, recognized the usefulness of the Bank and earnestly advocated a new charter, with some changes in the organization. The vote on the charter in the House was 65 to 64 in favor of indefinite postponement; in the Senate it was a tie and the vice-president cast

his vote against the Bank. Five years of disastrous experience without the Bank effected such a change in the attitude of Congress that the charter for the second Bank was granted in 1816 with but little serious opposition.

After the second Bank had been made a political issue and forced out of existence, the custody of public funds was given over to the state banks, and their notes became the only paper currency. They soon afterward suspended specie payments and many of them went into bankruptcy, with heavy losses to the Treasury. Resort was then had to the independent treasury system, since maintained with some modifications. Daniel Webster said it was modelled after the treasury of Darius, King of Persia, 500 B. C., the theory of the system being that the government should collect all income in cash and guard the cash in a strong-box until it was paid out in the regular course of expenditures. It is needless to say that this policy was totally at variance with modern customs and at times proved to be wholly impracticable.

The paper currency, issued entirely by state and private banks, without any supervision by the national government, soon fell into a deplorable state of disorder, and in many sections remained so until the national banking system was established in 1863. The leading argument for the national banking system was that it would provide the country with a uniform and safe currency, good in

all sections. Judge Alphonzo Taft, father of William Howard Taft, writing from Cincinnati to Secretary Chase of the pending bill, expressed the opinion that if Congress would adopt his recommendations for a national currency, "that in itself would be no inconsiderable compensation for the War." And the fact is that the fulfillment of this promise as to the character of the currency has so fortified the national banking system in the confidence of the public that its defects have been disregarded.

The independent treasury system proved to be a serious handicap to the government in all large financial transactions. So long as income and outgo were closely balanced the inconvenience was not serious, but when at the outbreak of the Civil War it became necessary to make large loans, the requirement that the proceeds should be transferred physically to the Treasury became an almost insuperable obstacle. If the Treasury could have accepted bank credit in payment for bonds and drawn against this credit in making payments, it is probable that the greenbacks need never have been issued, that the country would have remained on a specie basis and that the cost of the war would have been very much less. The country was rich enough to buy the bonds, but it was impracticable to pay for them in specie when the specie was to be withdrawn from the channels of trade and locked up in the Treasury. The government was attempting to do business by a method which, applied to all payments, would bring

the whole civilized world to a standstill at any time. A similar effect, although not so suddenly produced, was experienced when the revenues of the government for any considerable period ran in excess of expenditures. There was a steady drain of money out of current use into an idle hoard in the Treasury.

An enormous economy is accomplished in the business world by the use of banking machinery, and it is highly desirable to have the government conform to the general practice. Its receipts and disbursements are so large that unless they are handled in the usnal manner they may at times seriously disturb the money market. The authors of the national bank act recognized this by providing that national banks might be used by the Treasury as depositories or fiscal agents. The Secretary of the Treasury may now deposit surplus funds in national banks, thus returning them to commercial use, but he is not allowed to keep disbursing accounts in banks in any city where there is an office of the Treasury, and as there are offices in ten of the principal cities of the country this is a serious limitation upon the use of banking facilities. During the suspension of cash payments by the banks in 1907 it was difficult for the public to obtain money for payments to the Treasury and the public revenues fell off rapidly in consequence. The Treasury was nearly empty of cash; it had $250,000,000 in banks but hesitated to call for any part of it in cash, for fear of increasing the popular alarm. If the Treasury could have

received cheques on solvent banks (as has since been authorized) and made its own payments by drawing cheques on the same banks, the Treasury would not have been a disturbing factor in that situation, as it was.

There are obvious difficulties about having the Treasury use seven thousand banks as depositories instead of one large institution. It is impracticable to use all local banks and experience has shown that it is impossible to prefer some over others without causing complaints of favoritism. The fact is that the Secretary of the Treasury is subjected to constant importunity from banks and the influential friends of banks, asking for favors of this kind. In the hands of an unscrupulous administration, the distribution of Treasury deposits might easily become a national scandal.

But the chief defect in the National Banking system, contrary to popular opinion, is in its note-issuing machinery. The objection is not that the notes in themselves are a poor currency, but that the conditions under which they are issued are so arbitrary that the system is not responsive, or in any respect related, to the needs of the country. It is related to nothing but the public debt. If we should have a period of peace and prosperity and want to pay off the debt, that policy would involve the retirement of the entire volume of bank currency. The only element in our monetary stock that is responsive to the changing needs of the business

community is gold. The only way the business community can provide itself with a larger supply of money is by the importation or production of gold. The needs of the country for an authorized currency are growing and variable. They vary from year to year, with the seasons of the year, and with the volume of trade. Nobody can foretell the demands for currency, but it is of the highest importance that there shall exist somewhere the power to issue all that may be legitimately wanted. A country where that power exists is immune from bank panics, while a country without such a system is never safe from them. The banks of the United States hold over $16,000,000,000 of bank deposits, practically all payable on demand, but there is only about $3,500,000,000 of money in the United States, all told, in the banks and out. These figures should be enough to convince the most skeptical that some means should exist for providing an additional supply of lawful money when it may be called for.

The national banking system is wanting in organization. It is a "system" only in the sense that the individual banks are organized and operated under one general statute, subject to supervision by the same public officials. There is little provision for relationship between the units and no agency through which the Treasury may deal at once with them all. The currency provisions, as we have seen, are so foreign to commercial banking as to be quite inadequate to serve the needs of the country.

But, although the policy toward the United States Bank, which is the subject of this review, was a grave mistake at the time and entailed great losses upon the country, and although the national banking system has serious defects, it does not follow that the United States Bank, if it had survived the attacks of Jackson, would have proved equal to all that is required of a national banking system for a country of such vast extent and interest as the United States. At best it could only have served as the keystone of the structure and, with the enormous development of banking that has followed, it could hardly have maintained its dominant position, or fully answered to the requirements of that position without important changes in its constitution. It would have had to become more intimately related with the local banks of the country and more distinctly a public institution. The line of development which banking has followed in this country, by which every community has been supplied with thoroughly local banking institutions, in which, as a rule, the most substantial people of the neighborhood are interested, is in many respects highly satisfactory. Whatever the weakness of the system may be, it has the merit of bringing the banking service more closely home to the people than any branch banking system could, and it may be accepted as settled that the banking business of this country will always be done with the public through locally-owned institutions. The problem of those who desire to

strengthen the system is to combine with this feature of independent local ownership certain powers which will enable the system as a whole to protect any of its individual parts, and to manage all of those public functions which the experience of the world has shown can be most capably performed by a banking agency. They desire to make the system something more than an aggregation of unrelated banks, and to overcome the tendency among them to pull apart and act solely for self protection in every time of strain.

Unfortunately, whenever an attempt is made to remedy this fundamental weakness, the same old antagonism must be met. There is a vague and suspicious fear of anything like organization or co-operation among the banks. The public knows the disastrous consequences that result from a collapse of bank credit, but when it is proposed to allow the banks to co-operate lawfully for mutual support, an alarm is given that a bankers' "trust" is proposed. A considerable number of people apparently prefer that the banking system shall be weak rather than strong, because they fear strength will be misused. This amounts to a deliberate choice of poor and ineffective methods on the ground that the American people are not capable of using or controlling more scientific methods which are in use and giving satisfaction elsewhere.

Our 25,000 banks cannot stand individually and alone in a crisis. The weakest will go first, but as

they fail the public alarm will increase until the strongest are closed, unless they stand together in a policy which now involves a violation of law. Unless they suspend cash payments by agreement the entire fabric of credit will be wrecked, and surely nobody can accept the policy of suspension at will as a permanent feature of banking in this country.

There is no disguising or evading the issue. Our entire industrial and commercial system must remain subject to these recurring periods of disorganization and distress or our banking system must be more closely and effectively organized. There must be a central authority to act in certain matters for the whole system. This, of course, means a degree of centralization, but all organization involves centralization; the very purpose of organization is to provide in an orderly manner for leadership and authority and to determine under what conditions and restraints power shall be exercised. A tendency to centralization is apparent in the banking business now, a movement toward voluntary association and consolidation, and it will go on under our present banking laws unless the support and protection which the individual banks are seeking may be secured in some other way. Is it better that this movement should go on or that a degree of co-operation shall be provided for in another way? Whatever centralization shall occur, under a general plan which includes all of the banks, will be public in character and all would have a voice in its control. It would

exist in a delegation of authority, in part from the banks and in part from the government, to an administrative body for specific purposes, with ample supervisory powers reserved to the government.

All of the institutions of society rest upon a similar basis. There can be no industrial or social progress without organization, and as population increases and presses upon the natural resources it becomes necessary, not only that organization shall be more highly developed, but that it shall be stable and reliable. In a sparsely settled country where everybody has access to the woods and the soil, there can be no very serious industrial crisis, but with a dense population of specialized industrial workers, dependent upon steady employment in their particular industries, any interruption in the flow of the exchanges is calamitous in results. Nothing is more important to this modern industrial organization than the protection of credit, and unless the American people have means as effective to that end as those of other countries they will be under serious disadvantage.

In any plan for reorganizing the banking system, the local banks will undoubtedly be left free to conduct their ordinary operations in their own way, subject only to such general regulations as must always be enforced for the common good. The business will still be open to all who wish to enter it and are able to get together the necessary capital. The conditions do not favor monopoly. There is no

control of national resources; no costly equipment is required; the amount of capital necessary can be easily raised in any locality and if the business is properly conducted can be readily withdrawn if desired.

The lending power of the banks exists for the most part in the credits left with them by their customers, subject to withdrawal at their pleasure. It is a mistake to suppose that these credits, temporary and shifting as they usually are, may be used by bankers at will. Bank patrons, as a rule, are both depositors and borrowers and no bank can hold its business unless it meets their legitimate wants. One class of customers will be borrowing in one season, other classes at different times, and the banker adjusts his affairs as best he can to meet all of their requirements. The degree of his success in satisfying them, at the same time maintaining sound principles of banking, is the measure of his success as a banker. His business grows as their business grows and as the community thrives. The more credits they accumulate on his books the better for him; his prosperity is indissolubly linked with theirs. The idea that the bankers of any locality may enter into a conspiracy with bankers elsewhere by which their own locality will be placed at a disadvantage, or that bankers as a class may conspire against the rest of the community, is based upon a total misconception of how bankers derive profits and where their interests lie.

This book treats of one of the most notable controversies of American politics and the story is impressive for the warning it gives of the danger in having grave and intricate economic questions settled by the kind of discussion which characterizes a political campaign. As population increases and becomes more and more highly organized, economic problems will multiply and government will have more and more to do with business. Questions vitally affecting the progress of industry and the general prosperity will be frequently before the electorate. Many of them will call for a high degree of intelligence and practical judgment, some of them for the advice of experts, and all must be approached in a spirit of inquiry and co-operation if they are to be successfully handled. Unfortunately, in politics there is suspicion and antagonism from the outset, a grouping into hostile camps, and a rivalry of leadership that make a fair consideration of economic questions at present impossible. Political discussion has little resemblance to economic inquiry. The latter proceeds by analysis and patient examination of details; the former deals in generalities and is nine-tenths declamation and denunciation. The clever politician finds that he can awaken a response more readily by imputing bad motives to his adversaries, and by appealing to the prejudices and passions of the voters, than by patient discussion of the questions before them, and he is after immediate results.

The capacity of a people for organization and co-operation develops as they throw off these influences. In order to act together effectively men must be able to depend on each other, and that implies not only mutual esteem and confidence but recognition of a real community of interests. The instinct of suspicion and antagonism, the fear of treachery and conspiracies, are destructive of co-operative effort. Society, under their influence, tends to disorganize and lapse back into the primitive state.

The instinct of suspicion is a sign and survival of an early period of the race, when warfare and exploitation was the common business of mankind, before men had learned, first, that they could gain more by trading with a neighbor than by killing him; and, second, that a neighbor was worth more free and prosperous than as a slave. The supreme truth that the genuine interests of men are not conflicting but harmonious has been slowly dawning upon the world and steadily modifies the relations between nations and classes, but even now is only faintly appreciated. It is still supposed to belong to some distant idealistic state, although every year sees new recognition of it in practical affairs. The rule is general and fundamental; the exceptions are personal and temporary. It is still true that one man may get the better of another in a horse trade, but in every important and legitimate sense the commerce of the world is based upon mutual benefits. The interests which the people of all nations and all

classes have in common are so much more important than those which conflict that they constantly gain with enlightened opinion. It is not very many years since statesmen of world renown believed that their own people might be benefited by misfortunes which befell neighboring countries, but the interdependence of the modern world has become so apparent that no one of repute would venture that opinion today.

A single producer, or the group composing a single industry, might gain a price advantage at the expense of consumers, but the interest of producers as a class cannot be separated from the interests of consumers as a class, because everybody belongs to both classes. A single employer may have an immediate interest in keeping down the wages of his own employees but this would be a poor country for employers as a class if all employees were reduced to starvation wages. A single "trust" may be interested in extortionate prices, or a single capitalist in usurious returns, but any general combination to curtail the purchasing power of the masses would bring factories and railways to a standstill and shrink the value of all the investments in the United States. Capital in the mass can only thrive by the prosperity of the entire population. The real gains of every class are not obtained at the expense of other classes, but through that constant progress in the arts and industries by which the sum total of wealth is increased. When this essential unity of

interests is understood there will be no more such controversies as we have seen in this country over money and banking, and the way will be opened for a general advance along all lines of collective and co-operative effort.

Washington, May 1912.

PREFACE

THE preparation of this brief history of the Bank of the United States was prompted by the feeling that the remarkable events which it covers are not familiar to as many of the average readers of the country, nor to the large class of busy men of affairs, as they deserve to be. This is believed to be owing to the fact that, although the record of the bank is given more or less fully in the general histories and some works on finance, it has with one exception been in separated fragments, and scattered through several decades of our history.

The purpose, therefore, is to present in concise form a connected story-like account of the institution, with just sufficient details to make it satisfactory to the ordinary business man and reader, rather than to attempt to offer any new material. It is a page of history so unusual in its several phases that it is considered worth putting in convenient form, so that every citizen may have easy access to it. For the purpose of completeness, the first chapter is devoted to a sketch of the first Bank of the United States.

The great Bank was for years the very heart of the American financial system. Its fortunes were

intricately involved with both the financial and political life of the nation. It is of a period more distinctly marked by empiricism and partisan rancor than almost any other, save only that of the Civil War. And, besides, the results were of such tremendous consequences, so vitally affecting the entire commonweal, that no reader is likely to peruse the simple chronicle of it without feeling the force of the moral.

We have not yet reached perfection in our fiscal system. No one contends that we have, while a good many among those whose training lend weight to their opinions, think we are a long way from that goal. There is a smart diversity of ideas, now as always, as to what changes are most desirable to make our currency system more adequate to the demands of the nation. A central bank has been advocated by a number of sound financiers, but they are not a unit as to the exact plan on which it should be erected; and others are adverse to the scheme altogether. But there is an increasing demand for a change, which has renewed interest in the banking and currency systems with which the American people experimented in the past.

The Monetary Commission appointed under an Act of Congress, and which has been studying the banking systems of the world, as well as the conditions and peculiar needs of the business of this country, is confronted not only with a most difficult task, requiring the highest wisdom and knowledge,

but also with the problem of overcoming or placating traditions that have constantly had their influence on our financial legislation. The Reserve Association plan recommended by the commission is subject to less objection than a central bank, although some profess to foresee danger in it. The situation is one of extreme gravity. It calls for the steadiest judgment, the greatest equanimity of the business community, and the least emotionalism by the people collectively. Necessarily there will be much discussion, and a keen public eye for special theories; but with it all, the wise ones are aware that immense peril lies in any clamor calculated to sway mature judgment based on experience and learning.

This consideration also had something to do with the production in this form of the story of the Bank. As time goes on, the motives that impelled its misfortunes, and the policies identical therewith that tended to lower ideals regarding public life, are more generally reprobated, and it is hoped the recital may tend to quicken this feeling.

The sources of this volume are those of recognized authority. The material was gleaned mainly from a few standard works, the reliability of which, either as to facts or deductions, has been fully recognized. The work referred to in the first paragraph is Catterall's History of the Second United States Bank, perhaps the most searching investigation of the subject that has been made; but this is a volume for students rather than for the man who looks askance

on a technical work of that bulk. Principal among the others are: Sumner's admirable work, Banking in the United States, being the first volume in the great symposium, History of Banking in all Nations; the Documentary History of the United States Bank, including a record of all the legislation relating to the bank up to 1832; Schouler's version in his Constitutional History; Knox's History of Banking in the United States, and a few lesser works. It is worthy of remark that all of these authorities, with others that could be named, arrive at the same opinion, varying only in relation to minor questions, that there was no reasonable warrant for the war that was made on the Bank, and as little justification of the political hostility to either the first or second Bank.

Chicago, May 1912

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CHAPTER I

THE most conspicuous part of our financial history prior to the Civil War is that relating to the second United States Bank. It is a story of dramatic interest, containing an element of tragedy, and giving an occasional glimpse of farce-comedy. Taken in connection with a brief survey of the methods of banking in vogue in the various states and territories at the time, and a few preliminary pages on the first bank, and also with a recollection of the spirit that ruled and moved the people, there is hardly a more instructive chapter in any department of American history nor one the lesson of which is worthy of wider application.

The first United States Bank was happy in not making so much history as the second of that name. It is well, however, to remember the main facts about it, as they lead directly to the larger story. It was, like the second, the offspring of necessity—an institution organized to assist in bringing order out of the financial chaos that existed under the Confederation, and as an aid to the new-formed Federal Government in conducting its fiscal business. There was so much difficulty in conducting the financial operations of the

Government that the national credit continued to languish. Facilities for collecting and disbursing the public revenues were an imperative need. Private credit was in as sad a state as that of the nation, punctuality in payments was something hardly expected by any one, and the ablest minds seem to have agreed that some form of a national bank was the only instrumentality through which improvement was possible. Hamilton was the most influential if not the first advocate of such a bank. His first ideas were embodied in a paper to Robert Morris under date of April 30, 1781, while the War was yet going on. His plan would have made the United States and the States partners in the shares, both being permitted to own the stock, but not for more than one-half the total capital. One of his ideas was to make it a land-speculating bank, at least to give it power to buy and sell land. The author of the project believed there would be rare opportunities for profits in this way, as there would be a large number of Tories who, for obvious reasons, would emigrate after the close of the war, and be under the necessity of selling at any price. Morris did not give this part of the outline his approval, although he and Hamilton and Governeur Morris had many ideas in common as to what a national bank should be. Some three years later, Hamilton opposed a scheme to found a bank of the state of New York, subscribers to the shares of which were to be permitted to pay one-third in cash and two-thirds in mortgages on land in New York and

New Jersey at not more than two-thirds of its value. A bank was organized which became the Bank of New York, and which began business before securing its charter. It is illustrative of the business conditions and the temper of the times, that this bank had difficulty in getting a charter, because of its great unpopularity growing out of its endeavor to enforce some punctuality in dealings with it.

Hamilton's celebrated paper to Congress, December 13, 1790, gave the outline on which the first Bank of the United States was organized. This paper has been considered by some as the acme of financial wisdom, while by others it has been criticised as a jumble of good and bad ideas, his approval of paper issues two or three times in excess of its specie basis being regarded as the encouragement of a dangerous heresy, although his idea was to limit it to a Federal bank. He distrusted State issues. But on other points he did not err. He pointed out the advantages to the people of a sound bank of deposit, where small sums of many depositers having no immediate use for them would make up a fund that would be available for borrowers who could make profitable use of the money. Among his arguments for a national bank, Hamilton said that it would be able to make loans to the Government in times of financial stringency, and that its operations would assist taxpayers to pay their taxes, besides cultivating punctuality. He declared against two schemes that were already becoming prevalent and which grew

into pet devices throughout the country, one being paper issues on land security, and the other, banking by a State for profit with the view of providing for public improvements without taxation.

In spite of the extreme necessities of the situation, Congress at once began to wrangle over the plan. The mere historic fact is not of much consequence except that it shows the critics and objectors arguing most hotly on questions, not whether the proposed bank would be safe and helpful, not whether it would strengthen public and private credit, not whether it was the best that could be devised. On the contrary, the debate turned on questions springing from prejudice and social and sectional antagonisms. The opposition professed a dread of the growing money power, and held that a great bank was not in harmony with the doctrine of equality, as it would benefit only the rich. Then, too, it would benefit the cities at the expense of the agricultural sections; and in this was the germ of the argument against the constitutionality of the measure, as the real animus lay in the assumption that the Bank would symbolize Federal sovereignty as against that of the States.

It may fairly be said that from this time was formulated the issues on which grew the warfare between the conservative class and the masses, between those who have nothing or little and those who have more,—the fear and hatred of vested interests. Advocating equality and the noisy denun-

ciation of social rank, bred the most bitter class hatred, which became a political shiboleth, and which has been at the bottom of most of the errors and evils of American financial legislation.

It did not seem to occur to those who declared the Bank would benefit only capitalists that almost everybody was seeking to borrow to conduct business, to develop industries, to improve lands, to make for themselves profits and to furnish employment. They professed to see only danger in men being able to improve a condition—otherwise almost hopeless—by securing credit,—provided they secured it from the rich, that is, the only ones who had to lend. Hamilton answered the objections to foreign stockholders, and that payment of dividends to them would be a tax on the community, with the statement that if foreign money was employed by citizens it must be at a greater profit than the cost in dividends, and therefore it was a gain to the borrower.

The debates on the Bank foreshadowed the sectional antagonism between the North and the South. The North had cities and commerce. The South had its agricultural interests and partiality for State sovereignty, while the States were not to be permitted to subscribe for the shares and the Federal Government was.

Madison led the opposition on constitutional grounds, his high card being the fact that the constitutional convention had voted down a provision specifically giving Congress the power to incorporate.

This continued to be the cornerstone of the anti-Bank constitutionalists so long as there was the shadow of a national bank left for them to fight. The Confederation had chartered the Bank of North America, and it could not be controverted that the new Government had powers equal to its predecessor. This was one of the readiest arguments in favor of the Bank.

The charter passed the House, February 25, 1791, 39 to 20, to run for twenty years. The Bank was to be located at Philadelphia. It was to issue no notes under $10. There were twenty-five directors; none could be foreigners; seven constituted a quorum. Only stockholders resident in the United States might vote by proxy (this to forestall foreign control). The president to be elected by the directors. Capital $10,000,000 in shares of $400 each, of which $8,000,-000 was to be by private subscription and $2,000,000 by the United States, no private subscriptions to be over 1000 shares. The bank could loan the Government not over $100,000 unless by act of Congress, nor any State over $50,000, nor any foreign potentate anything. It established branches at New York, Boston, Baltimore, Washington, Norfolk, Charleston, Savannah and New Orleans. It was to report to the Secretary of the Treasury at his call, but not oftener than once a week, and that official might inspect it any time. The Bank's notes were receivable for dues to the Treasury. It could own no land or buildings, except for its own use, or by foreclosure;

it might sell, but not buy public stock; its interest rate limited to six per cent. It should be noted that, in contrast with the next United States Bank, it paid no bonus to the Government. This was Madison's second objection.

This, the first Bank of the United States, was modeled largely on the Bank of England. Hamilton explained the object of the Government taking shares was to aid in forming a specie fund, then a difficult thing to do; but it has been shown that the Government did not put in specie, and claimed that its subscription gave no particular advantage. The shares were greatly oversubscribed in two hours after the subscription opened, and the Bank began business December 12, 1791. The subscriptions were payable in four instalments, one-fourth of each to be in gold and silver,but it was said that no more than the specie part of the first instalment ever was paid in in specie. An active speculation in the shares sprang up, and is said to have contributed to the commerical crisis that occurred the following year. Recovery was rapid, but over-expansion, caused by many local banks starting up and issuing notes almost without restriction, culminated in another panic in 1796, the year of the great financial crisis in Europe, and in which the Bank of England suspended specie payments.

The Bank and its branches were not the exclusive Government depositories, and other banks successfully competed with it in this respect, particularly

during Jefferson's Administration, when the local banks were mostly of his party. In January, prior to the expiration of the charter, a Treasury report showed one-third of the Government deposits in eleven State banks, only three of which were west of the Alleghanies. During its career the first United States Bank was controlled by Federalists. This is worth bearing in mind. It explains much of the opposition to the renewal of its charter; as the following extract from a letter of Jefferson to Gallatin, his Secretary of the Treasury, dated July 12, 1803, shows something of the quality of patriotism that animated the party which overthrew the Federalists, and whose slogan was simplicity and honesty in government. "As to the patronage of the republican (anti-Federalist) bank at Providence, I am decidedly in favor of making all the banks Republican by sharing the deposits amongst them according to the dispositions they show." Whatever ugly methods for making party adherents this seems to advise, it had the merit at least of being more straight-spoken than any of the recorded utterances of the man who destroyed the Second Bank.

There is no evidence that the Bank did not well serve the purpose for which it was created, and its operation appears to have aroused few complaints, even among the faction that objected to its charter. In fact, it was argued that when Jefferson signed the bill passed by Congress to enable it to establish a branch at New Orleans (in the newly acquired Terri-

tory), he and his followers signified that their scruples about its constitutionality had been overcome.

When the time approached for the Bank's charter to expire March 4, 1811, the spirit that had opposed it was aroused anew. At the time the Bank was organized there was no party cleavage—political parties had not yet formed. But the elements of popular distrust, that associated capitalism with "British interests"; that hated centralization of Government, or for that matter, much government of any kind; that were jealous of Federal power; that declaimed against aristocracy, and professed to see in the Bank and its adherents a menace to the liberties of the people,—all these were now rallied and organized into a party, and that party was dominant. It had taken all the antagonisms and class prejudices and popular notions about equality and liberty and made of them a party creed. Its principles were repugnant to those underlying the Bank, and it was never for a moment a question of whether its usefulness and conduct were such as to merit a renewal of its charter. The Secretary of the Treasury appealed to reason, by showing how important its services to the Government were in providing a safe deposit for the greatly increased public funds, its prompt transmission of them to and from all points, and the excellent facilities it afforded for collecting the revenues. He also declared his distrust of the small banks, which were now numerous.

But Gallatin was whistling against the wind. The

contention over the subject became acrimonious. Popular feeling was largely with the opposition. Its chief organ was the "Aurora" which, in its issue of November 8, 1810, offered twenty "reasons" why the Bank should not be rechartered. The one most often urged, and which formed the pith of most of the others, was that the shares were mainly owned by foreigners. Another was that it was a political engine, designed to subvert popular government; that it was in the service of England; that it was creating a moneyed interest contrary to the principles of the Declaration of Independence. (Sumner)

The fact that foreign shareholders could not vote did not allay this dread, nor was it worth while to point out that the Declaration did not enjoin poverty. Those who have made the most searching investigations have discovered nothing in the history of the Bank to warrant the violent declamation against it. The most definite charge was that the manager of the Charleston branch went out on an election day and threatened to curtail discounts of those voters "hostile to English domination,"—an obvious fabrication. Gallatin was even denounced as a traitor for defending the Bank. Duane and his notorious newspaper followed the idea then dear to the people, that in mere numbers there was virtue—better many small banks than one large one; and land-banking was especially popular—"to any bank not founded on landed security of the United States we are hostile."

The legislature of Virginia instructed their senators

and requested their representatives to vote against renewal because it was unconstitutional, "an encroachment on the sovereignty of the States." Pennsylvania through its legislature gave similar instructions. All showed deep social and political animosity, and if there was any better reason we have the word of those who have examined the records closely, that it is not there disclosed. It seems strange that the question of its utility was hardly touched upon. The most absurd fears were alleged. In Congress it was urged that Napoleon might buy up the shares and so control America. Another thought that if a war with England should come the prime minister might cripple our finances by English holdings. Yet no foreign stockholder had a vote in the management. Professor Sumner candidly says, "The destruction of the Bank was a part of the program of the young democrats who wanted a war with England in order to conquer Canada."

As a matter of fact, the 5,000 shares of stock owned by the Government were sold between 1796 and 1802, at a considerable premium. The friends of the Bank argued that it was really no longer a national Bank, and therefore not dangerous in any way; and that it would disgrace American credit not to grant a new charter after the Government had unloaded its stock on purchasers abroad; but that did not count in Congress, and the bill to recharter failed. The stock was liquidated at 109.01¼ for $100 paid in.

The skillful management of the Bank is attested by

the fact that the average loss per annum by bad debts during its twenty years of existence was but 61-100 of 1 per cent, which, considering conditions of business at that time, may be regarded as a most excellent showing. The dividends averaged something over 8 per cent. Between March and September, 1811, the Bank paid out in liquidation $5,700,000 in public and private deposits and redeemed $3,500,000 of its notes. In the first year of its liquidation it paid out $11,600,000, and its specie stock increased $1,200,000. We have Gallatin's word that the public deposits were removed within a week before the expiration of the charter without any harmful effect. In 1823 there was $205,000 of its notes still out, and a court order released the commissioners from liability, $5,000 being reserved for mishaps.

Was it really anything more than unreasoning prejudice that decreed the termination of the first United States Bank? One searches through the voluminous record of the speeches and debates to discover something that appears to justify Congress in its refusal to renew the charter. The result is not satisfying. The arguments that appeal to common sense, that appear in consonance with sound principles, were made by advocates of the Bank. Those of the opposition are long, flatulent, revolving around the question of constitutionality, and reiterating the dangers of fostering a moneyed monopoly owned largely by foreigners. As an example that should have been a valuable lesson at a later date,

it is worth while to look closely into the motives that actuated both parties. In a speech in support of the Bank, Fisk of New York said:

"Put down this bank, and how are your revenues to be collected? Through the medium of the State banks? You do what no prudent man in his individual concerns would think of doing. You discard a faithful, honest, responsible agent, whose integrity and fidelity you have known for twenty years and you place your estate in the hands and at the disposal of 20 or 30 entire strangers of whose character and responsibility you know nothing, nor have the means of acquiring any knowledge, and over whose conduct you have no control. Should an individual act thus with his property he would be deemed to have lost all regard for it, if not considered a madman. In resorting to the State banks we are offering the amount of our revenue as a bounty for intrigues, cabals, and factions, throughout the country. In almost every State there are a number of banks, and each will endeavor to get the revenue collected in that State to keep and trade with. It must be given to one or divided among them all. If one is selected as the favorite, all the rest become jealous, dissatisfied, and exert their capital and influence against the favorite bank and its patron, the Government. This will awaken the spirit of faction in every State, yet unknown in this country. If all are to be gratified in their request for the deposits, the Government must open separate accounts with all the different banks

in the country, to the amount of 50 or 60, and new companies will be formed, and new applicants will request to divide the business and share the profits. Indeed, there will be no end to the scene of speculation and intrigue which will soon appear if this course is adopted by the Government." *

Mr. Fisk estimated that the cost of collecting and distributing the public funds would then amount to $600,000 a year, this in twenty years, the term for which the renewal act provided, making a charge on the Government of $12,000,000. The Government had a gain of $721,000 besides saving this enormous expense, under the present charter. One would think this was practical talk, which it would take strong reasoning to overcome. Yet on the other hand we find a good deal of this sort, the quotation from a speech by Desha of Kentucky:

"This is a question whether we will foster a viper in the bosom of our country that will spread its deadly venom over the land, and finally affect the vitals of our republican institutions; or whether we will, as it is our duty, apply the proper antidote by a refusal to renew the charter, thereby checking the cankering poison, the importation and dissemination of foreign influence that has already brought our Government to the brink of ruin......It would further the views of Federalism by increasing their power and assist them in overturning the present

*Hist. Doc., p. 154.

system of Government, on the ruins of which they will count upon raising one more congenial to their purposes."

Yet the latter argument, if so it may be called, prevailed as a monument to the statesmanship of the time; and Fisk's prophesies were in the next few years verified to the letter. The House voted January 24, 1811, to postpone indefinitely the renewal of the charter. The vote in the Senate, February 20, was a tie, and the Vice-President, George Clinton, cast the deciding vote against it.

CHAPTER II

IT was not long after the closing of the first Bank until the country began to experience again the distress of unsettled financial conditions. Where there had been fair uniformity of the currency, there was now none. Only a few of the local banks maintained their notes at par, and the notes of each bank were at a different rate of discount. It was well known that only the notes of the Bank of the United States had been current everywhere, and now it was said that one could outride in twenty-four hours the credit of any local bank, which meant, of course, that beyond its immediate neighborhood its issues were not known, and therefore distrusted. "The varieties were so great and the badness of all so extreme, that there was no money of account. The Government suffered the greatest loss and embarrassment from the derangement of the currency." (Sumner)

The second War with England coming on had something to do with increasing the trouble, the Government being unprepared, both from lack of income and facilities foı disbursements, to meet its expenses. Before its close, many of those who had opposed the renewal of the charter of the first Bank were

favoring the creation of a second National Bank. They found as early as 1813 that their claims that the fiscal affairs of the Government could be carried on just as well by the local banks were erroneous. Yet whenever any definite proposition was advanced in Congress it aroused the old political antagonism and only the most embarrassing necessities made another bank possible.

When one considers party antagonisms at this time, and in connection with the public finances, one of the causes of increasing party hostilities is seen in the attitude and actions of the Federalists in New England. That their opposition to the second War was carried to the extent of trying to cripple the Government in its finances, there can be little doubt. Mathew Carey made the charge that the Boston banks entered into a conspiracy "to stop the wheels of Government by draining the banks in the Middle and Southern States of their specie, thus producing an utter disability to fill the loans" needed to conduct the war. Carey made out a pretty strong case, too, by giving specie statistics; not only that, but he made a telling charge that specie to the extent of seven or eight millions was drawn into the British Provinces to pay for Government bills and smuggled goods. It was known that in Boston, men of means not only refrained from subscribing to the Government loans, but the loans were so unpopular that advertisements were placed in Boston papers promising that names of subscribers would not be made public.

Government loans had sold as low as 80, and at that brought a various assortment of bank-note currency, depreciated from 20 to 30 per cent, and in some instances as much as 60 per cent. Some of the loans were downright failures. The banks suspended specie payments August and September, 1814, and the Government had to take any sort of paper. Besides, the public finances had been poorly managed. Albert Gallatin, an able Secretary of the Treasury, resigned under popular clamor, and in 1811 William Jones became Acting Secretary of the Treasury. He was entirely unequal to the task, and in February, 1814, gave way to George W. Campbell, who was equally inefficient. These men first had an idea that the War could be financed from the ordinary revenues with the help of Treasury notes, and were disappointed when loans were not subscribed for because they were unauthorized by Congress, and no measures taken for their repayment. When A. J. Dallas succeeded to the Treasury portfolio late in 1814, the Government defaulted on interest on the National debt, held in New England, failed to redeem Treasury notes on demand, and paid soldiers in bank notes which were of so doubtful value that they were not receivable for taxes. In fact the Treasury at one time was unable to meet payment of small current bills.*

Even when the Treasury had money, it was difficult

*Catterall, p. 1 et seq.

for it to meet its disbursements at different places. "One of the chief reasons for winding up the old Bank of the United States was to find out whether it had been useful or not. In 1815 it was almost universally believed that this question had been fully answered by experience and that the experience had been costly," says Sumner; and it cannot be denied that the local banks had failed completely as fiscal agents of the Government. They had refused to make necessary transfers, had failed to provide adequately for public deposits, and finally had refused to pay the balances due by them except in the ordinary course of public expenditures at the place in which they were located. The reader is hardly likely to need a reminder that the opposition to a national bank during all the years of controversy over the subject, from the first agitation for the recharter of the first Bank of the United States to the final overthrow of the second, was strengthened and encouraged by the local bank interest. As will appear, banks under State charters and private banks as well, viewed the national institution as an unwarranted restriction on the license which they would otherwise enjoy of doing business practically as they pleased. They resented the regulation which the great Bank imposed on them, their favorite charge being that it was a "monster monopoly," even when five hundred of them were doing business as its competitors, and in reality being benefited by its steadying power. It reduced their excessive

note issues, and in some places the rate of interest—and the public gained thereby.

But above all they had the feeling strong in that era that any corporation that enjoyed any special advantage from the Government, no matter what benefits it gave in return, was a public vampire; and this feeling was stronger with respect to the Government funds than anything else. They assumed a natural right to these deposits, and never allowed the consideration of safety or convenience to the Government to count against the benefits which "the people" would derive from the use of the public revenues.

A glance at the record* shows that it required repeated efforts before another bank was chartered. January 4, 1814, a petition signed by 150 business men of New York, praying that an act be passed to incorporate a United States Bank with $30,000,000 capital, was presented in the House by Mr. Leferts. It was referred to the Committee on Ways and Means which reported that Congress had no power to pass such an act. Calhoun suggested that a Bank of the United States within the District of Columbia would be as useful for all practical purposes, he believed, as any other, and the power of Congress to charter such a bank could not be doubted. Taylor of the Ways and Means Committee reported such a bill, providing for a bank with a capital of $30,000,000, but it failed to pass.

*Doc. Hist. of the United States Bank

A Southern member made the next move for a national bank, Felix Grundy of Tennessee submitting a resolution for one April 2, 1814. The Committee failed to report before adjournment; and on the reassembling of Congress in extra session in September, Fisk of New York presented another petition from business men of that State, praying for the establishment of a Bank of the United States. It went to the Committee on Ways and Means, which apparently lost sight of it, for it returned a report on the Finances of the Government containing five resolutions, in none of which was there any proposition respecting a Bank. Dallas, now Secretary of the Treasury, recommended the establishment of a national bank, declaring it to be the only remedy for the shocking condition of the Government finances. A bill after the Dallas plan was drawn up, but it was strongly opposed, for providing that the Government might suspend specie payments whenever it found necessary—in fact it was a scheme for a non-specie paying bank. A plan without this defect was recommended by Calhoun, and substituted for the Dallas bill, but there was so much disagreement that it failed. The House blocked the proposal by its wrangling. In December, 1814, the Senate reported and passed a bill similar to that recommended by Dallas. It was lost in the House by the casting vote of the speaker, Cheves. Then the House tried again, and passed a bill, 128 to 38, providing for no suspension and no Government partnership. The Senate

finally acceded to it, and the bill went to the President who returned it with a veto, because, as he said, "such a Bank cannot be relied on during the war to provide a circulating medium or loans or anticipation of revenue." In this he appears to have waived the question of constitutionality.

February 6, 1815, another bill was introduced in the Senate, where it passed February 15, and on the 17th came news of the treaty of Ghent which ended the war. The House joined in the general exultation and indefinitely postponed action on the bill, apparently assuming that the financial troubles of the nation would now right themselves, which Calhoun at the next session very plainly told them was impossible, and that no remedy could be found except through a national bank.*

In his message for 1815 the President urged Congress to provide for a uniform currency, either by a National Bank or by Government issues. In response to a request from the Committee on Currency, Dallas gave another plan for a Bank which he recommended, at the same time arguing for its constitutionality. It did not arouse the objections of the previous one. Calhoun reported a bill for a charter in accordance therewith, January 8, 1816, and gave it his support. It passed the House April 10, 1816, 80 to 71, and afterwards passed the Senate, 22 to 12, the result of the seventh attempt to secure a bank. It was immediately approved by the Presi-

*Catterall, p. 18

dent. This bill was opposed by the Federalists, headed by Webster, who objected to the Government holding stock in it, and also to the size of the capital.

It is worthy of note that now the political opposition to the Bank came largely from the Federalist element. The reasons were not far to seek. They had opposed the war, had impeded measures necessary for financing it, and a new bank if established would be under the control of their political opponents. It will be interesting, however, to watch the uses these opponents made of their opportunites in managing the new Bank, and to contrast the results of the first few years of its operations with the record of the first Bank.

The charter of the second United States Bank was for twenty years, with a capital of $35,000,000, of which $7,000,000 was to be in specie, and $7,000,000 contributed by the United States in 5% stock, subscriptions to be paid in three installments. The remaining $21,000,000 of public subscriptions was payable in Government stock.* It was to pay a bonus to the Government of $1,500,000 in three installments, two, three and four years, was not to issue notes under $5, and not to suspend specie payments under penalty of 12%. There were to be twenty directors chosen by the stockholders, and five (stockholders) appointed by the President of the United States. No person might subscribe for over

*Probably few readers fail to note that the word "bonds" is now generally used with reference to Government securities.

3,000 shares unless the total subscription should be less than \$28,000,000. The Secretary of the Treasury might at any time redeem the public stocks in the capital of the Bank at the rates at which it was provided they should be received in subscriptions, namely: 6% at par, 3% at 65, 7% at 106.51 and accrued interest. He might also redeem the 5% stock given by the Government for its subscription. The directors were to be chosen annually, and no one of them might be a director in any other bank. No stockholder not residing in the United States might vote by proxy. Five of the elected directors and one of the appointed directors were to retire each year, and no director could serve more than three years out of four except the president. The Bank was prohibited from buying public stock, and its interest rate was limited to 6%. It might not loan the United States more than \$500,000, or any state more than \$50,000, and could make no loans whatever to any foreign prince or state. It was bound to transfer public funds from place to place at the demand of the Secretary of the Treasury without charge, and was to give the Secretary reports of its condition as often as he should call for them, not exceeding once a week. Congress was to charter no other bank during the period of this charter. It was allowed to issue post-notes in denominations of not less than \$100, having not more than sixty days to run. The directors were to appoint the officers of the branches, affix their compensation and

establish by-laws for them. The Bank was not allowed to pay more than ½ of 1% for deposits of specie. It was required to keep in separate books accounts of the Government, and the total amount of its debts exclusive of cash deposits was limited to the amount of its capital unless Congress should otherwise allow. Of the twenty elected directors, ten were Federalists and ten Republicans, but no such bi-partizanship was observed by the President in appointing the five Government directors, all of whom were named from his own party. William Jones, recently Secretary of the Navy, and the incompetent Secretary of the Treasury pro tempore, was elected president, being a Republican politician backed by Madison and Dallas.

An important provision of the charter was that governing the votes of the stockholders. One share and not more than two shares had one vote; for every two shares above two and not above ten, one vote; for every four shares above ten and not exceeding thirty, one vote; for every six shares above thirty and not exceeding sixty, one vote; for every eight shares above sixty and not exceeding one hundred one vote; and for every ten shares above one hundred, one vote; but no person, co-partnership or body politic could cast over thirty votes. This arrangement, intended to prevent control of the management by a few, left a large loophole, as will presently be seen, for much harmful manipulation.

By comparison it will be seen that exclusive of the

bonus this charter did not depart far from that of the first Bank organized on Hamilton's plan. We find it hinted that this was one of the objections urged against it—something that had been furbished up from the Federalist scrap heap. But in any event the administration was well pleased with it. While Webster had headed the Federalist wing of the opposition to the charter, he introduced a joint resolution April 30, 1816, requiring that after the 20th of the succeeding February all payments to the United States should be made either in specie "or in Treasury notes, or in the notes of the Bank of the United States, or in notes of banks payable and paid on demand in specie;" this being adopted. It was the authority bestowed by this legislation that enabled the Government to bring the necessary pressure to bear on the local banks to bring about a resumption of specie payments, which those banks were resisting.

Subscriptions to the stock of the Bank were received at various points July 1, 1816. When the subscriptions were opened it was found that the aggregate fell short of the $28,000,000 allotted to the public by the sum of $3,038,300. Stephen Girard immediately came forward and took the whole amount. The bank organized November 1, 1816; and February 20, 1817, was the date fixed upon by the Secretary of the Treasury for the resumption of specie payments which had long been suspended. At this time irredeemable paper currency was in use nearly all over Europe, except in France, and its depreciation made

it easier now to draw specie to America. The Secretary of the Treasury was able in 1817, to redeem from increased revenues $13,000,000 of the public debt. But at the same time the Bank became creditor of the local banks for the large amount of their notes with which the Secretary made payments. This is how the Bank acquired that power to regulate the currency by exerting pressure as it saw fit on the State banks, and for exercising which in a needless degree it could not long escape censure. It could force them toward a resumption of specie payments, which after all, was part of the work it had been incorporated to do. But it was nothing new for the local banks to cry oppression—they always did so whenever their reckless and even lawless methods were interfered with. As has been indicated, it was they, more than any others, who furnished demagogues then and years later with the pretext for denouncing the Bank as an oppressor of the people.

Secretary Dallas had proposed resumption of specie payments as early as March, 1816, but the banks resisted. The National Bank began business the following month, and in July, Dallas proposed that specie payments begin in October, first with all notes smaller than $5. The banks again refused, and wanted till July 1, 1817, which caused a good deal of apprehension to the administration. No doubt the local banks were actuated largely by their jealousy of their new competitor.

When W. H. Crawford became Secretary of the

Treasury, October 22, 1816, there were 89 State banks of deposit with $11,000,000 in them of United States funds. The transfers from them, previously noted, took from the Secretary the power, after a nominal resumption of specie payments, to reject the notes of those banks which pretended to pay in specie. Crawford urged the local banks to join with the Bank of the United States in efforts toward resumption, offering to draw from them only gradually and not in favor of the new Bank. The temper of the local banks was again shown in their blunt refusal. Instead, they called a Bankers' Convention in August, 1816, at Philadelphia, which was attended by representatives of New York, Philadelphia and Baltimore banks, who coolly rebuked the Secretary for his entirely reasonable request, and voted a non-approval of his policy of resumption. One is led to wonder what would have happened to the Bank of the United States in Jackson's time, or any previous time, if it had shown any such militant opposition to a fair and reasonable Government policy. But there was no talk of these banks trying to "subvert the Government," and there is no record that Jackson or any of his adherents ever referred to this action as tending to override democratic institutions or interfere with established governmental power. Professor Sumner says: "Here certainly was very dainty action with regard to the 'removal of the deposits'....No such insubordination was ever manifested by either Bank of the United States as

characterized the State banks in the dealings of the Government with them" at this period.

The banks finally submitted an agreement as to resumption, which was sanctioned by the Secretary, and February 20, 1817, was the date fixed upon. The transfer of the Government funds to the new Bank caused considerable ill nature on the part of the local banks. As has been indicated, rarely if ever has the nation been in a more chaotic state of finances, than it was at the close of the second War with England. Both public and private finances were in the utmost disorder. There had been inflation, speculation, depression. The country was afflicted with an excess of banks—it seemed that the more there were of them the worse the conditions.

All this was what the new national Bank was intended to remedy, and it went about it much like one trying to extinguish a fire with oil. Following the financial methods of the day, many of those who assisted in its organization, who bought the shares, and some of whom became directors and otherwise concerned in the management of it, immediately set about a system of operations which within two years plunged it into the financial mire.

Much was expected of the Bank on all sides, for strong claims had been made in Congress and out, that it would prove a great public blessing by making a uniform currency, and equalizing the exchanges. And many, who no doubt had been opposed to its charter out of principle, waived their

scruples in the face of dire necessity. And indeed some improvement was felt following its organization in spite of the scandalous methods of its first operations.

The Bank began by issuing post-notes payable in sixty days. Some of the most prominent subscribers to the shares, including directors, both those elected and those appointed by the President, seemed to be obsessed with gambling. They entered upon a manipulation of the stock of the Bank in true piratical style, particularly those surrounding the branch at Baltimore, as will be related in some detail. Within a short time, nineteen branches had been established, the clamor for them coming from almost every business center. The officers of these were for the most part incompetent and reckless, and disobedient to orders. If the local banks had been inimical to the charter of the national concern, the people of the different sections of the country now seemed to think that it had been established with a view, not only of providing them with good money, but also with plenty of it from Government income. It is observed, too, that it was assumed about this time, that paper issues had really superseded specie as money; and also, as Sumner observes, as always occurs under similar financial disarrangements, that it was specie which had advanced and not the paper which had depreciated.

To add to its difficulties, the Bank was harassed from the start by the actions of the local banks in

refusing payment of specie on their notes, which the Bank held, while no such leniency was extended it from any quarter. So many men of influence, political and financial, were stockholders in the local banks, that care was taken by the political management of the big Bank not to offend them by too strong insistence. And the wretched condition of the currency, its varying depreciation from day to day, and from place to place, with resumption something of a farce, made regulation, under the present system of management, practically impossible.

In spite of fraudulent operations of its management the Bank appeared prosperous, and in 1818 its loans and discounts reached $41,400,000. In 1817 it paid a dividend of 8% and in 1818 one of 5½%. The payments on stock subscriptions, it will be remembered, were in three installments, the second and third being payable $10 in specie and $25 in public stock. The second installment payment was due January 1, 1817, and specie was then at 6% premium at Philadelphia. At a directors' meeting December 18, it was voted to make loans on the shares of the bank stock in order to facilitate what would be regarded a specie payment on the same—the board afterward making a certain limitation to this privilege. It will be seen at once into what treacherous waters they were sailing.

This being taken in some quarters as really an evasion of the provision for specie capital, a resolution was introduced in the House, January 6, by Forsyth

(later Van Buren's Secretary of State) inquiring whether the payment of the specie part of the second installment had been evaded. It went to the Committee on Currency which, acting under it, addressed a letter to one of the directors, Lloyd, who was then in Washington, and who in reply admitted that discounts had been made to facilitate the second specie payment; but he sought to excuse it by arguing that otherwise the payment could not possibly have been made. Upon this, Forsyth introduced another resolution, to the effect that the Bank should not be permitted to go on with its operations or to receive public deposits until the second installment had been paid according to the terms of the charter. But it would seem that Congress at that time was in sympathy with this independent method of banking, which was in fact common to local concerns, as the resolution was not passed.

These transgressions of the new Bank, instead of checking inflation as was hoped, was really the adoption of the worst features of banking then prevalent. As a sound authority tersely states it, "From the very brink of resumption, the great Bank carried the whole country back into the slough of inflation and depreciation." Just what was done to effect this degradation is most concisely learned by following the report of the House Committee of investigation, which was appointed under a resolution offered by John C. Spencer of New York in November, 1818, the report being dated January 16, 1819.

First, the Committee exonerated the Bank on one charge that had been flung at it recklessly. "The Committee have not found any evidence of the Bank having attempted to oppress the State banks, either by wanton demands of specie, or by the rejection of their notes. Much complaint had, indeed, existed, but in the instances which have come to the knowledge of the Committee, the State banks have been in the wrong, and some of them at the Westward have refused the most equitable propositions of the Bank, and have met its demands for its just dues with complaints and reproaches." * The Bank was indeed criticised for its forbearance toward the local banks, in not holding them more strictly to their engagements, which is strong evidence of the selfish and discreditable attitude of the local banks previously alluded to.

But the Spencer Committee found enough other things that had been going wrong to warrant its apparently sincere efforts. Besides lending on pledges of its own stock for payment of the installments, dividends had actually been paid to a few shareholders who had not made payment for their stock, even in that easy way. It was impossible for the Committee to determine exactly how much specie had been paid in; but of the third installment, which should have brought in $2,800,000, it is believed a very trifling amount was paid, and as little in United States bonds. On the contrary, there was evidence

*Doc. Hist. U. S. Bank, p. 174 et seq.

that nearly the whole of the second and third installments were paid by notes discounted on the pledged stock. The amount of specie in the Bank, February 17, 1819, was only $1,724, 109, or only $324,000 more than the specie part of the first installment. It would appear that certain speculative stock subscribers drew out of the Bank the coin paid in by other subscribers in order to pay it into the Bank again on subsequent installments on their own shares—"an operation of more potency in creating specie than was ever ascribed to the fabled fingers of Midas." So said the report, almost in a spirit of admiration.

The Committee observed that this kind of manipulation had prevented the shares going more into the hands of solid capitalists, as it ran the price up inordinately. The amount of discounts made on pledged stock up to July 13, 1817, a little more than half a year, was $8,046,932.64, but of this there had been repaid $2,815,000. The Committee was also surprised to find so little good business paper in the Bank, where it was to have been reasonably expected that the merchants would transact their business. Directors admitted that they did give preference to stock notes over business paper, and some of the Government directors were among the worst offenders in this disreputable business. Among those directors was President William Jones, George Williams, Dennis A. Smith, and James W. McCulloch, cashier of the Baltimore branch; three Government directors, Pierce Butler, John Connely and

Walter Bowne had not been concerned in the stock jobbing. Jonathan Smith, the cashier at Philadelphia, and McCulloch were both badly implicated; much the worst condition was found in the Baltimore branch. This was surrounded by a clique which had by sharp practice violated the intent of that provision of the charter governing the voting power of the shares. The Baltimore holdings were about one-seventh of the whole stock, whereas by this method the holders cast more than one-fourth of all the votes. The scheme was to take stock in a large number of names, that is, each nominal owner having one share, and all being voted by the real owner who acted as attorney. Williams, the Government director, owned 1172 shares in as many names, which gave him as many votes, whereas he otherwise would not have had over thirty. The Baltimore speculators, consisting mainly of James A. Buchanan, president of that branch, and also of Smith & Buchanan; his partner, Smith, and Cashier McCulloch, who was a clerk in their House, dealt in the shares in ten and twenty thousand lots, holding at one time over $6,000,000 worth. They carried 1000 shares for President Jones, and made him $15,000 by it, which he seems to have accepted.

The Committee found the charter violated in four points: 1. The Bank had sold $2,000,000 of public stock in England to buy specie, and the Secretary of the Treasury desiring to redeem the stock, the Bank had bought in the market and delivered to him that

amount at a loss of $54,264, the excuse being that the management did not want to disturb the arrangement it had made in England. 2. The installments had not been paid as the charter provided. 3. Dividends had been paid to stockholders who had not paid their installments on their shares. 4. Persons had been allowed to cast over thirty votes each by the device of proxies.*

As to the purchase of the $2,000,000 of Government stock, the Bank had acted only as agent for the Government, and the offense was merely technical. It was done with the sanction of Congress.

The Committee members probably were afraid to trust themselves to comment according to their feelings, as they merely say that "they are not aware that any remarks which could be made by them could present the subject in stronger light than the above statement of facts. The same persons who thus held the power of appointing directors are found to have the greatest loans on stock." This in the opinion of the Committee was the greatest evil, and the origin of all the others. "The system places the property of the other stockholders and of the Government, the credit of the Bank and individuals and in a measure that of the nation, at the mercy of a few large stockholders, who without having contributed to the wealth or the value of the institution, have the control of its concerns."

Of course the Bank was in distress. Several things

*Doc. Hist.

were necessary to insure its continuance. Jones resigned in disgrace, and James C. Fisher became president pro tempore. In July, 1819, contraction of its loans was ordered at Philadelphia, Baltimore, Norfolk and Richmond to the extent of $5,000,000, but this order was only partly complied with. The delinquency of the State banks in paying their balances had contributed something to its cramps; and more strenuous efforts were decided on to get specie from abroad. Silver was then at 10 per cent premium. About $550,000 of specie was withdrawn from the West. August 28, it was decided to take no branch notes save at the branch of issue, a policy which brought forth many objections, and was the cause of much unpopularity. However, the use of branch drafts was extended with practically the same effect, and this led to that abuse of drawing and redrawing between branches "which drew the capital away from the sounder and more conservative branches to the weaker and more reckless ones." At Baltimore it had been the habit, not only to borrow on pledges of stock, but that branch had discounted large sums on the market premium of the shares, up to 25 per cent. These loans were now ordered reduced to par. After the investigation and report, the speculative managers resigned and a new directory was chosen. Langdon Cheves, recently Speaker of the House, was on the Government list, and was elected to the presidency of the Bank, March 6, 1819.

The Spencer Committee did not recommend any drastic action, but advised the passage of an act requiring any person who offered to cast over thirty votes, to make oath that he was not the owner of the shares. Such an act was passed, March 3, 1819. In September, Cheves submitted a report which showed specie on hand only $126,745; specie in the mint, $267,978, and in transit from Kentucky and Ohio, $250,000; but the Treasury dividends amounting to nearly $500,000 were due. The branch at New York was in little better condition, and that at Boston was even worse. The Bank at Philadelphia owed Baring Bros., and Thos. Wilson & Co., London, nearly $900,000 and had, including notes of its branches, a circulation of $6,000,000 to meet.

It appeared that the parent Bank at Philadelphia was induced to imitate the dishonest proceedings at Baltimore, much to the harm of the Boston and New York branches; and it is observed by one of the most candid critics of the transaction, that even the Treasury Department entered into what was effectually a conspiracy against the stability of the branches in the Middle and Eastern States, by furnishing Philadelphia and Baltimore with large drafts on the Government balances in New York and Boston, with the intention of reversing the balances and placing the funds where mismanagement had made them most needed.

It cannot be questioned, that political favoritism had much to do with the trouble that was brought

upon the Bank so swiftly after its organization. Jones seems to have been ignorant, not only of the details of management, but also of the functions of a bank. There is reason to believe that the prospects of the opportunities which the Bank would afford, for positions with emoluments and speculative profits, had something to do with the success in securing its charter. It is certain that those who most contributed to the early violations of the charter and its entirely unmercantile transactions, including the Government directors, were influential at Washington, and some of them even remained so after their exposure. Sumner states the case in some detail thus:

"In the office at Baltimore, of which James A. Buchanan was president, and J. W. McCulloch was cashier, there were nearly three million dollars discounted or appropriated without any authority, and without the knowledge of the Board of the office, or that of the parent Bank. S. Smith & Buchanan, of which firm J. A. Buchanan was a member; James W. McCulloch and George Williams (the latter a member of the parent Board by the appointment of the President) had obtained of the parent Bank discounts in the regular and accustomed manner to the amount of $1,957,000 on a pledge of 18,290 shares of stock of the Bank. These men, without the knowledge of either Board and contrary to the resolutions and orders of the parent Board, took out of the office at Baltimore under the pretense of securing it by pledging the surplus value of the stock already

pledged at the parent Bank for its par value and more, and other like surpluses over which the Bank had no control, to the sum of $1,540,000... When this stupendous fraud was discovered, attempts were immediately made to obtain security, and it was nominally obtained to the amount of $900,000. It was probably really worth $500,000... The loss sustained in the office in Baltimore alone, the great mass of which accrued out of their fraud, and others connected with it, have been estimated at the immense sum of $1,671,221. The aggregate of the losses of the institution growing out of the operations which preceded the 6th of March, 1818, exceeded considerably $3,400,000. The dividends during the same time amounted to $4,410,000. Of this sum, $1,348,558 were received as the interest on the public debt held by the Bank, which leaves as the entire profits on all the operations of banking the sum of $3,061,441, which is less by at least $500,000 than the losses sustained on the same business."

In 1822 the Dividend committee found the exact loss to be $3,743,899.

The directors and officers could make but a lame defense of their methods. They pleaded extenuating circumstances, particularly as to discounting notes on Bank stock security; and also claimed that they labored under disadvantages in three respects: 1. The receipt for dues of notes issued by other branches than the one at the place of receipt. 2. Obligations to pay Treasury drafts on demand at any place.

3. That their debentures must be paid in coin while dues were received in notes.

It was not shown that the Treasury had been unreasonable in placing its drafts for large sums at the branch banks, it being no part of the policy of the present administration to hamper or inconvenience the Bank.

While reform saved the Bank, it came out of the orgy in bad odor with the republic. Many had lost in the shares, and others had been severely pinched in the curtailment. When the order was given August 28, 1818, that the branches should cease receiving each other's notes, it caused much hardship, and not unlikely was the cause of a good many failures; and many laid the whole cause of the panic that came on, to the evils of the Bank.

CHAPTER III

THE thoughtful reader must be impressed with two principal facts in relation to the Bank of the United States at this time. One is, the loose system under the charter that could have permitted so riotous and unlawful a manipulation of its affairs; and (with his mind on subsequent events) the action that was taken by the Government, when the fraud and the desperate condition of the Bank were exposed. The record of the voluminous debates in both Chambers of Congress on the subject of the charter, when it was on its passage, discloses little evidence of earnest study of banks and banking, or any indication that those who engaged in the discussions were striving to secure the most scientific and efficient bank system. The wrangle was rather over the frazzled question of constitutionality, sectional advantages or disadvantages, and the danger that lay in creating a great money power. Even the advocates of the charter argued more on the benefits that would accrue from a strong national bank, than the necessity of utilizing the best wisdom of the time in perfecting the system. The ablest financiers may have influenced their action in a greater degree than the record indicates,

but if only sound banking had been the purpose, without prejudice, or thought of speculative opportunities, there would have been less need for an investigation, and less humiliation to American finance in the findings of the Committee.

While no one will contend that any banking system, however perfect, is proof against organized rascality in the management, it is apparent that the loose structure of the charter, leaving loopholes in the plan of voting on the stock holdings, and the latitude as to discounts, to say nothing of more fundamental things, offered an encouragement to the speculative banditti that got into the organization, especially those that surrounded the branch at Baltimore. High-sounding rhetoric about inherent rights had not protected the people who invested in its shares, nor the general public, which suffered in the financial distress that spread over the country at this time, and for which the fraudulent operations of the Bank were largely responsible.

There was of course a great deal of wrath against the Bank when the facts about its condition became known, and those who had opposed its charter enjoyed their opportunity of declaring such an institution never could be anything but a dangerous instrument in the hands of the wicked. Many would have revoked the charter, others would have withdrawn the deposits, or have refused the Bank's notes at the Treasury, careless of the ruin that would thereby have been inflicted on thousands of innocent

shareholders, besides increasing the commercial distress that already afflicted the country. There was shown by this rabid faction a good deal of the spirit that actuated Jackson and his adherents, the vast difference being, that now the Bank was disgraced and nearly ruined, while in their time it was proved sound and successfully performing its proper functions. They, in their day, did not read the lesson in what was now done. But fortunately, reason now prevailed. Reform was at once instituted, those who had betrayed their trusts were swept out, new officers and directors, men of tried ability and probity, were put in their places, loose machinery was tightened up by proper rules and legislation, a careful curtailment with due regard for other banks and the commercial necessities of the community was ordered, and the Bank was saved for future years of invaluable service to the Government and to the public. It paid no dividends in '19 and '20, but resumed on a 4% basis in '21; and to 1831, the average from the start was a little over 5%.

The Secretary of the Treasury acceded to the reasonable request of the Bank covering its complaints, previously noted. There was indeed, difficulty in securing competent managers for all the branches. The present trouble had been brought about through incompetency as well as dishonesty. By curtailments, especially in the West and the South, and a loan of $2,500,000, obtained in Europe, a considerable degree of safety was soon reached.

But with all that could be done, the contraction caused a panic, and that raised a storm of criticism, some of which perhaps was reasonable, but most of which was blatant. It is curious, too, that the most vehement denunciations of the Bank were not for getting into the swamp, but for disturbance made in getting out. Even Niles, of Register fame, complained that "present pecuniary profit is sacrificed to concentrate a power to command it hereafter; to regulate the transactions of individuals; to govern the money matters of the nation; to elect presidents of the United States and enact laws for the government of the people." This is quoted merely as showing the spirit of those opposed to the Bank, it being the same now, and expressed in much the same terms, as it was in the later days of Jackson and Kendall and Taney. There had not been the shadow of evidence that the Bank had attempted to elect presidents or any other officials, or that it contemplated doing so; and as to its regulation of the transactions of individuals, it of course was clear that a Bank that required people to pay their debts and would not lend to any one who wanted credit, with or without security, must be a menace to individual liberty. Whatever politics had ruled in the Bank, had been injected into it out of "principle"—the principle that its control in all its details belonged as patronage to the party dominant in the Government, rather than that of selecting bankers with the skill and experience and honesty adequate to conducting a great moneyed institution.

As for the rogues, Buchanan, Williams and McCulloch were tried for conspiracy to defraud the Bank. The lower court in Maryland acquitted them. The decision was overruled by the court of appeals, but on retrial they were again acquitted. Suits were brought against the officers of some of the other branches. At Louisville, the president and half the directors were turned out. The president of the Richmond board resigned, there being a deficit in that branch of about $60,000. Nor were these the only deficiencies.*

The policy of the Government taking stock in the Bank had been questioned by able authorities, aside from the question of its power to charter. It created a public debt to buy stock which might or might not prove profitable. It cleared a good profit from the first Bank, but nevertheless it was something of a speculative venture, and when the great losses of the second Bank were exposed and the Government was shown to be out of purse something like $500,000, as its share, it caused a great out-cry from the anti-Bank element. They claimed that they were being taxed for the privilege of being, through the Federal Government, stockholders. Then when the Government made gains, they asked why they should not be allowed to associate themselves in the same kind of an organization without asking Federal consent.

But the summing up of the profits and advantages that accrued to the Government, as will be seen,

*Catterall, page 79.

leaves no room for doubt that the partnership was a profitable one from every consideration, and much more so than it could have been without a stockholder's interest.

The antipathy to a Federal bank, even though controlled by democrats, was increased by the failure of the attempts made by several of the States to tax the branches. This movement grew out of the complaints of the local banks, and those interested in them. The great Bank, in fact, at its worst had practiced no fraud which was not common in the methods of the local banks. But the latter could now turn attention from their own misdoings by complaints of the injustice and tyranny of the "monopoly." Maryland led by voting a tax of ten cents on each $5 note, upward, or offered a commutation for $15,000. Attempts by Ohio and Kentucky resulted more sensationally. The former attempted to tax the two branches of the Bank in that State $50,000 a year each for the privilege of doing business there "in violation of the laws of the State." In case of default, levy was to be made on the specie or notes of the Bank, and search was to be made for them. The Bank secured an injunction from the Federal court forbidding the collection of the tax under the law, yet in September, 1819, agents of the Auditor went to the branch at Chillicothe, entered the vault and took by force $120,425, the cashier still refusing to pay the tax. Five days later, they returned the amount in excess of $100,000, having been careless

in helping themselves, and taking much more than they were expected to.

The Governor disapproved of the performance, and declared he was ashamed it happened in Ohio, but he could not get the money restored. The branch had to suspend payment for a few days. The agents of the Auditor were arrested for trespass with violence, and being unable to furnish bail were placed in prison, but finally released on a technicality. The money was taken by the State Treasurer, who was finally imprisoned for contempt, a committee of the Legislature having taken from him the money which the Federal court had enjoined him from parting with. The Legislature passed an act outlawing the Bank, but the Supreme Court of the United States overruled it, and the act was repealed. The Bank recovered $98,000 and continued to do business in the State. The other States also failed in their endeavors to tax the branches therein out of business.

No story of the United States Bank can convey an adequate understanding of the conditions under which it operated, the service it rendered, the obstacles against which it had to contend, and the errors it was led into committing, without explaining in intimate detail the processes of other banks and banking systems of the time, and also the mental processes of the people in relation to banks. During the period of disgrace of the big Bank, and the panic period of 1818 to about 1820, the other banks were behaving as discreditably. These concerns, which

had been declared equal to all the requirements of the United States Treasury for deposits of tens of millions of public funds, and the conservation of the interests of the people, were failing whenever and however they could make anything by it. We have seen how they resented the attempts of the Secretary of the Treasury to exercise any authority over them, and how Crawford coaxed them and helped them with the public deposits; and when he tried coercive measures, how they bullied and for a time defeated him.

Not only had confusion and fraud resulted from the operations of the United States Bank and the local State banks, but also from unchartered, or "private" concerns, which issued notes to any amount they pleased. This had been particularly true in the West, but was at length curbed. In Indiana a law was passed December 26, 1815, against this sort of free lance banking, the same act providing punishment for counterfeiters of bank notes "by a fine of three times the value, and 25 to 50 lashes on his or her bare back." It is not on record that the extreme punishment ever was inflicted; in fact, the laws generally against counterfeiting were so lax, and the public feeling toward banks so inured to the belief in their dishonest practices, that it was a rare thing to secure a conviction imposing a prison sentence. Sumner quotes from Niles an account of the arrest in May 1837, of four persons in New York City, on suspicion of being counterfeiters, they being found at

work in an attic, printing notes on the Ottawa Bank of Montreal. They showed much indignation at the interruption, claiming to be a real bank,one president, another cashier, the others directors. They had a stock of $20,000 in notes, and $800 in silver, and explained that they were doing business in New York because it was cheaper. They were discharged on the ground that "they had violated no law." It is indicative of the currency conditions both of that date and at the time the second Bank was chartered.

The methods of unscrupulous banks increased the prejudice of the non-mercantile (and largely preponderating) class toward moneyed concerns. They seem to have regarded a national bank as worse than the others in proportion as it was larger, and controlled by richer people. But it should not be forgotten that the antipathy of the people was not alone toward the National Bank. The popular feeling was bitter against banks as a class to an extent that would appear entirely devoid of reason unless the character of the very large majority of the banks of the period is considered. The State laws were so lax that they were under little restriction, and as Sumner says, "They adopted all kinds of devices to avoid any risk of being obliged to redeem their issues....and when trouble came, suspended";—that is to say they withdrew from the performance of their obligations while insisting on payments of debts to themselves. The relation of their various schemes grows tedious: Notes being printed payable

at certain places, and other catch clauses printed in small letters that were usually overlooked; requiring an oath, when notes were presented for redemption, that they were not bought up for the purpose, and that the holders were not agents for others, and in some instances, charging fees for administering the oath. The holders of bank notes could not tell when they had real money. Many of the so-called specie-paying banks had little coin as a basis for their notes. As an example of methods, a tradesman interested in a bank would take a quantity of its notes to exchange. He paid them out at every opportunity and retained notes of other banks which he brought to his favorite bank. This provided that bank with "specie-paying funds"—notes of "specie-paying bankers." Thus two banks, neither of which had any specie, but each of which held a quantity of the notes of the other, became "specie-paying," because each returned its stock of notes to the other as "specie funds," or "cash items." Banks usually organized under rules requiring payments on stock in installments; the bank to begin business when one-fourth or one-fifth of the "capital" was paid, only a small per cent to be paid "in specie or bank bills which will command the same"—which made the specie requirement a joke. Sumner, from whose work these examples are mainly taken, expresses a doubt if there were any honest banks and bankers of the period preceding the second War. These earlier banks invented nearly all of the later abuses, and they set

about the exploitation of them with less reserve than their successors. If they did not realize what a mischievous precedent they were establishing, that is the most that can be said for them.

The antipathy to banks and bankers was, however, deeper than resentment against their misdeeds. It sprang out of the doctrine of equality, and a settled antagonism to everything symptomatic of aristocracy. For many years there was constant inveighing against the favoritism of banks because they would lend only to the rich, that is the solvent; thus, it was obvious, making the rich richer, and the poor poorer; and it was actually argued, not always by the most ignorant, that banks should be made to act "equally." It will be seen that these were the burdens of Jackson's complaints, and it was this sentiment that increased his popularity.

History shows that the State banks, like the Bank of the Commonwealth in Kentucky, tried the policy of popular banking—lending to insolvents—and in the words of Sumner, "Their experiment was ample, unreserved, and conclusive. The effect of giving equal credit to all, at least to those who were freeholders, was to ruin everybody, and at last the bank also." Governor Slaughter of Kentucky, in one of his messages to the Legislature (1818), expressed a fear of banks and of a moneyed aristocracy founded on them, while Desha, previously quoted herein, expressed in Congress a fear even of the growing power of Commerce—it was likely to prove dangerous to the agricultural interests.

Throughout the South and West the United States Bank was as unpopular as a foreign institution, being a creation of Eastern wealth, and an unsympathetic "monster" that actually expected payment of loans when due. Senator White of Kentucky condoned this feeling with the explanation that under primitive conditions the people had not been accustomed to such punctuality in their dealings; and as is always the case, "although the Bank had been popular when making loans, it soon became very unpopular when trying to collect its debts."

The local banking system was so scandalous, so ruinous, so lacking in sanity and honesty, that one wonders how a nation of people claiming superior intelligence, if not omniscience, ever could have permitted it to grow up among them; and having discovered its evils, how they could have objected to a Federal system giving uniformity and security. The heresy of paper issues was largely at the bottom of it. The necessity for specie or real capital came to be hardly recognized. "The possession of capital was of no use except to inspire confidence. This being once established, the capital was an inconvenience," says Sumner. This was practically as true of those banks organized by the States themselves, and which may properly be designated as banks of the State, to differentiate them from the local State institutions. The experience of the States in banking may not be very interesting history, but it has its value in showing the danger of trusting to popular

opinion and to politicians unskilled and unlearned in finance in the formation of a banking system.

Legislators, in bank making, seemed to have no idea that the operation of a moneyed institution required special skill or training. They set up a bank of the State with $1,000,000 or $2,000,000, expecting it to produce profits automatically. They always had candidates from among their number to fill the offices; at least they usually were filled through political pull. "The case was fortunate when the worst that could be laid to them was incompetency." The theory of rapid rotation in office held with respect to banks, as well as to public business. It was a common thing for bank managers to abuse their positions for private advantage, but they were rarely or never brought to serious account for it. Even the prosecution of the officials who defrauded the Baltimore branch of the national Bank resulted as we have seen, in a total miscarriage of justice.

As a sample bank of the State, we may glance at that of Illinois, incorporated January, 1821, for ten years, with a capital of $500,000, all owned by the State. It was located at Vandalia. The president and directors were elected by the Legislature. Its first issue of notes was from $1 to $20 at 2% interest, recommended to be allotted to districts according to population. They were loaned up to $100 upon personal security (endorsers); over that amount on land security, *loans being renewable yearly*, and to be paid in installments within ten years. The lands

and revenues of the State were pledged for the debts of the bank. State funds were to be deposited in the bank. The school moneys received from the United States were paid over to it, and notes for double the amount were issued and loaned as explained. We find it stated that the school funds were misapplied and squandered during the life of the bank. Of course almost anybody could get an endorser for $100. Many never expected to pay, and never paid. It was an extremely hopeful paternal scheme, and nobody seemed to doubt that it was in perfect harmony with democracy. Whether it was in accord with economic laws, no one seemed to care. Ford quotes Ninian Edwards as declaring in the campaign of 1826, that the State was paying out notes of the bank at 33 cents on the $1, this showing their depreciation, but that it had to receive them as taxes, etc., at face value. During the ten years' life of the bank, the State's loss is figured to have been more than $300,000 through thus receiving and paying out currency, with an additional loss of $100,000, through the small loans that were never collected. Of course the State had to make good. This is probably a fair example of State banking experience, though it is not the most disastrous.

Few persons outside of the banking fraternity are now aware of the extent and calamitous results of such State banking. Tax-payers were brought to favor the scheme under the expectation that the State would make large profits, and thus taxation

would be made unnecessary. All banks of the States were based on the proposition that the "credit" of the State could,to almost any extent,take the place of capital and perform its functions. It was a part of the illogical conception of the authority and powers of the State. Even after the system had been proved a failure, the political "bankers" kept it alive by orating of "higher purposes"—development of resources, equal facilities to rich and poor, etc. These demagogic phrases pleased the people until taxes began to be levied to pay the deficits. But this was not the end. The politicians then sought popularity by enacting "relief" laws, providing for interminable stays, replevins, and protection for debtors, that had a distinct tendency to encourage insolvency. The creditor seems to have had no friends whatever.

The effect of such financing and legislating could not be otherwise than quite as evil morally as it was economically. Of course there was at last a revulsion of feeling; the few bank officials who tried to prove loyal to their trusts exposed the methods of the tricksters. The blunt president of the Bank of Tennessee set forth to the Legislature of that State in 1845, in plain words, the fact that they could not expect to have the bank a success and plunder it too; and was regarded as an aristocratic reactionary. Professor Sumner says that "more evil and distress resulted from these State bank schemes than from all monopolies and plutocrats through all the decades."

It may be mentioned here that conditions growing out of State banking in Kentucky, had a direct bearing on the "Bank war" of Jackson's administration. Certain "relief laws" were declared unconstitutional by the court. The Legislature denied the power of the courts to annul its acts. This caused a clash between the Legislature and the Judiciary. The Legislature sought to annihilate the court, and passed an act in 1824, repealing the laws under which the Court of Appeals was organized, at the same time passing a bill under which a new court was organized. This made an Old Court party and a New Court party. The Old Court denied the constitutionality both of the Repeal act and of the New Court act, and continued in existence. The State now had two courts of the same jurisdiction. The New Court party hated the Bank of the United States, particularly its branches in that region, and charged them with giving pecuniary aid to the Old Court party. One of the most belligerent of the New Court party was Amos Kendall, a pedagogue turned lawyer, who wrote vituperative pamphlets on his side of the question. The New Court held the Court records during 1825 by military force, and civil war was avoided only by the moderation of their opponents. Finally, there was a compromise. This did not relieve Kendall of his vindictive feeling toward the Bank of the United States. He carried it to Washington a few years later, and, as we shall see, was one of those most active in inspiring Jackson's course.

As for the conflicts between the United States Bank and various local banks, it would be a tedious recital to give many of them in detail. Langdon Cheves had his troubles with them. The local banks had enjoyed large immunity from paying their debts—redeeming their notes in specie—under Jones, and claimed the same under Cheves. The Georgia banks made a direct issue of the matter. They were required to make weekly settlements, but complained that this greatly cut down the volume of their issues, making the impudent request that no more of their notes be received at the Savannah branch, and declining to redeem notes presented by it. Litigation resulted, and was settled in the Supreme Court of the United States in favor of the Bank. Relations were then re-established. The banks in New York City and elsewhere, after the accession of Biddle, also objected to weekly settlements.

CHAPTER IV

WHILE the financial panic that occurred in 1819 was aggravated by the reckless conduct of the United States Bank, the latter cannot be charged with causing it. As has been stated, the period from 1812 to the time the Bank was organized had been one of extreme inflation. Local banks had multiplied beyond all demand or reason. Some of the States put checks on new charters and renewals, but that was the exception. In Pennsylvania a bill was passed authorizing the incorporation of forty-one banking institutions with a combined capital of over seventeen millions. The Governor vetoed it, but it was passed by the constitutional majority, March 21, 1814, and under it thirty-seven banks were organized.

By mid-year, 1819, the panic reached its height. There was terrible distress in all the cities, many thousands of persons being turned out of employment. In June, Smith & Buchanan failed at Baltimore, the crash being a far-reaching one. They had long been known as plungers in the speculative world, and for two years or more had undoubtedly leaned heavily on the Bank. Failures in New York,

Philadelphia, and other cities were numerous and heavy, and the country did not recover from the shock for three or four years. Prices are reported to have dropped 50 to 60%, and during much of the time the bank note issues that made up much of the circulating medium were of such uncertain value that no one could tell how much "money" he had. Their depreciation was sometimes found to be more than one-half.

Under the conservative administration of Cheves, the Bank was soon brought into a sound condition. It retained $3,795,400 of its stock, taken on pledges, and subscribed for Government loans of $6,000,000, which virtually reduced the capital of the Bank by these amounts for the time being. There was also suspended debts of $10,000,000 when Cheves took hold. The provision in the charter that made no director except the president eligible for the position more than three years out of four, was regarded by some as an unwise one, as it worked to deprive the Bank of the services of some of its best qualified directors; but Biddle, in after years, approved it, as it also aided in getting rid of incompetents. Conservative management had in the two years reinstated the Bank in the confidence of the business public, and its shares again advanced above par. Nicholas Biddle was appointed a Government director in 1819, elected a stockholders' director in 1820, and was elected president of the bank, November 25, 1822, "there being but one vote against his

nomination for the office." The contest was between the conservative element and that which grew dissatisfied with Cheves, the latter stockholders advocating a more enterprising policy. It has been said that Cheves, who was above all things conservative, had the idea that the only consideration with regard to the Bank was to be safe. But the stockholders had not put in their money for that alone. They expected dividends. Cheves' policies had saved and resuscitated the Bank, but they would not meet the requirements of prosperity.

When Biddle took charge January, 1823, he was only thirty-seven years old. He was a Pennsylvanian and had served in the House of Representatives at the time his father was in the Senate. He had a good education, was of an ardent temperament, ambitious, enthusiastic, and has been generally credited with possessing a genius for finances. Whether or not he was a "safe" banker depends largely upon what period of his career judgment is passed. Biddle was a government director in 1819, 1820 and 1821. In 1822, he was not a director; from 1829, he was also elected stockholders' director, and held the double qualification in 1830, 1831 and 1832. After that he was not a government director. — (*Sumner*) He was a Harvard graduate, and had been secretary to the American ministers at London and Paris. He had practiced law and literature, and had edited Lewis' and Clark's *Journal of Explorations.*

At the time of Biddle's assuming the presidency, a statement of the Bank showed the following: Circulation $4,300,000, specie $4,400,000, public deposits $2,700,000, public officers $1,500,000, private deposits $3,300,000, loans $30,700,000, public stocks, $11,000,000. During the ensuing two years the capital was increased by the sale of $3,000,000 or $4,000,000 of stock that had been forfeited to it. The suspended debts of $10,000,000 had been skilfully handled and mostly saved. Liquidation had been so drastic during the panic and immediately afterward, we find that by 1823 the currencies of the different States were all substantially equal on the Atlantic Coast at about par. After the reorganization under Cheves the policy of apportioning capital to the different branches, in amounts deemed sufficient for their needs, and requiring them to operate on that, was adopted, and seemed a wise course.

In 1823, and the two following years, the Bank took Government loans of $10,000,000, which resulted in almost bringing it and other banks to a suspension of specie payments two years later. From now on the Bank dealt in exchange, buying and selling bills on all points where it had branches on terms which gave it a profit. It had previously only discounted notes payable at the places, or for accommodation at a distance, and not for profit. As might have been expected, its engaging in the exchange business excited the hostile criticism of other banks, under the

assertion that it ruled the rates. As will be seen later, there was no more justice in this criticism than in most of the others coming from the competing banks.

For a number of years after the recovery from the panic of 1819, business conditions throughout the country continued favorable, and banking conditions especially were improved. It is true there was something of a flurry in the spring of 1825, which was brought about by sudden depreciation in the price of cotton. A drop of 3d. a pound occurred at Liverpool, and a strain was also caused by large Government drafts to found a bank at New Orleans. This period was the first severe test of Biddle's skill. He met the situation quite as a master, selling $2,000,000 more of public stock for cash to meet the demands. It is declared that the Bank saved the country from the throes of a panic at this time. In January, 1825, the specie in the Bank stood at $6,700,000; by July it was down to $4,000,000. But with the exception of this brief storm there was clear sailing until "Old Hickory" came on the scene.

In the light of subsequent criticisms of Biddle for speculative tendencies, it is to be noted that during this period the stockholders complained of his conservatism, as they had of Cheves, and urged a more liberal policy. They did not want the Bank to keep a check on the currency of the country at their expense in the way of small dividends.*

*Catterall p. 110.

In the chronicles of the Bank we read of repeated efforts to induce Congress to pass an act permitting other officers besides the president and cashier to sign the notes. This had become a huge task, and a great strain on the physical vitality of both the officers named. But for this, Congress was deaf to their petitions. Its excuse was that the notes of the Bank would not be uniform if any of them were signed by proxies. It was in fact, the limitations of the capacity of the two principal officials in signing notes of issues that led to the revival of the use of private drafts, which was suspended during the panic. It may be mentioned in this connection that at the time the Bank stopped issues from the branches it refused to receive for credit of the United States Treasury anything but specie or its own notes. It could not afford to take notes of banks, most of whom would not redeem them. This was another thing that gave a good many people what they believed to be a cause for a grievance. Those who owed for public lands were now obliged to pay specie, an exceedingly difficult thing for them to do. Crawford made this his defense for distributing public moneys so that it might favor land debtors. This appears to have been a reasonable thing for him to do; and it also appears that in his criticisms of the Bank and his talk about its becoming a political peril, he was playing the demagogue.

However, the private drafts were a cause ultimately of much sorrow to the Bank, convenient as they

were for some years. They were drafts drawn by the cashier of any branch on the parent bank to the order of some officer of the branch and endorsed by another officer to bearer. They circulated like notes. Some question about them arose, but at different times Binney, Wirt, and Webster gave opinions that the drafts were entirely legal. The total receipts of these drafts at Philadelphia, New York, Boston and Baltimore in 1828-29, amounted to over $37,000,000. The South and the West paid for their purchases in those markets with that kind of exchange. Gallatin said "They are of the same character, depend on the same security, and in case of failure, would share the same fate as bank notes. Though not usually included in the amount of the circulation of the Bank, we cannot but consider the average amount in circulation as making part of the currency of the country." The Secretary of the Treasury approved them and allowed dues to the Government to be paid in them; nevertheless, they met with a good deal of objection subsequently, for soon after their reintroduction, the so-called "race horse" bills, reappeared, this term being applied to the system of drawing between the different places where there were branches, so that a bill falling due at one place was met by the discount of a bill drawn on another place.

It was at this period that the first attempts were made to introduce a uniform system of bankruptcy. Bills to this purpose were introduced at the Session '26-'27, but there was too much opposition to allow

their passage. Objectors affected the belief that the measure would apply to the wealthy more than to the poor, and also that the operation of such a law would benefit the Atlantic sea board at the expense of other parts of the country. It is notable, too, that up to this time it had been difficult in any of the States to secure laws abolishing imprisonment for debt, which seems remarkable in the face of such legislation as has been referred to, aiding debtors, by stays and replevins, to evade payment.

As evidence of the satisfactory operation of the Bank, the records show that at a meeting of the stockholders in 1828, there was much congratulation over its good managment and prosperity. Its losses had been largely made up. Most of its enemies appeared to be conciliated, or at least they were not making much noise. It is true, there was some complaint and jealousy over the exchange operations, charges for drafts being considered too high, and indeed the profits from this department in 1828, were $500,000, yet the rates, the historians assert, were not unusual. This is proved by the higher charges after the Bank ceased to be a national concern, referred to in Kentucky in 1838, as "the shameful brokerage and shaving on the exchanges practiced by the banks of the South and West."

During these years incident after incident caused the writers to remark on Biddle's shrewdness as a banker. He could always offer a logical reason for the policy pursued, and his essays on banking show

he was well acquainted with his profession. Of particular interest to students are his observations on a mixed currency, and of the methods of expanding and contracting paper issues in consonance with the outgo or income of coin. The perusal of these papers gives an intimate view of the hazardous nature of banking under those conditions.

The period has now been reached of the beginning of the Bank's troubles. It has been a custom for those who attempt to justify President Jackson's destructive war on the United States Bank to reiterate the assertion that it was unsound; that the President believed it was corrupt and unsafe; that reports to the contrary by committees of Congress were "whitewashes," influenced by the relations of many congressmen with the Bank. These assertions have continually been made to support a policy adhered to by a party whose patron saint is distinguished mainly for his ruthless use of arbitrary power. They are in conflict with clear historical evidence, and reflect the temper of a partisanship more loyal to tradition than to consistency.

The only fact that can be distorted to give the color of truth to such assertions is that the Bank was finally discovered to be insolvent. But that was nine years after Jackson's first attack on it, six years after he had forced the removal of the Government deposits, and long after it had ceased to be a national bank. The questions are, whether the Bank was sound and pursuing its legitimate course in a legi-

timate way at the time the assaults against it began —whether the President could have known of anything to warrant those assaults; and further, whether the continued attacks on its good name and credit had anything to do with causing its downfall.

It must be admitted—official records prove it—that the Government was making gain out of the Bank and enjoying other solid advantages from it when the war was started. We have abundant historical evidence that the currency was then sound, and we have already noted Gallatin's favorable comment on the branch drafts, the most criticised feature of its operations, showing that while their use proved an error it had the sanction of able minds. Its losses caused by fraudulent control during the first three years had been made up. If it had not effected absolute uniformity in the circulating medium it had done so substantially; specie payments had been well sustained for years; not a business man anywhere questioned its safety nor the fact that it was a substantial check on the reckless inclination of the local banks. And the great, overtopping fact is, that during the years from 1830, onward to the removal of the deposits, the country was properous, with Government and mercantile finances in a happy condition, as they had been with a slight interruption in 1825 from the time of its resuscitation from the acts of its plunderers, about 1821.

Before these most weighty truths it profits little to quibble about whether the Bank in all the details

of its vast operations pleased everybody's notions, or committed errors of judgment, or indeed whether it had committed any technical violation of its charter such as usury, as was claimed, through its charges for discounts and domestic exchange together. It must at the outset be determined whether there was any grounds *at the time* to justify a policy, not only of attack but of extermination; for no intelligent person not obsessed with prejudice can study the evidence in the case without being convinced that the determination from the start was that the Bank should either become a subservient ally of the dominant party or be driven out of existence. There is no utterance by Jackson, or any of his abettors, in the matter, that they desired to effect any reforms, to correct methods in banking, of which they disapproved. It was a conspiracy as obvious, as far from the possibility of doubt, as any related in history, to control or wreck the greatest financial institution on the continent in the interests of a political faction. How far the motive of revenge entered into the proceedings is not so certain. Some authorities have doubted whether Jackson had the destruction of the Bank in mind when he entered the Presidency. They question whether if he had he would have selected a Secretary of the Treasury from the State in which the Bank was located. And they fail to discover anything in his previous experience that would have inspired him to such a course. In an earlier day he had been put to some inconvenience by the branch

at New Orleans refusing to cash a draft for him; but this is dismissed as too trivial to consider. That may be, yet nothing is better known than that Jackson had a good memory for those who crossed him and failed to make amends. It is known that in 1827 he opposed the repeal in Tennessee of the law taxing the Bank's branches there, and that he then expressed hatred of the Bank. On the word of James K. Polk, he was dissuaded by friends from attacking the Bank in his inaugural Message. It seems reasonable to suppose that he had some of the antipathy toward the institution common to the region of his home, and that this feeling was easily intensified by stories of the Bank using its influence against him or his party. Amos Kendall, fourth auditor of the Treasury, and F. P. Blair, editor of the *Globe*, both were full of anti-Bank venom; both were close in Jackson's confidence, and the *Globe* was the administration organ. The former we have seen absorbing it in Kentucky at the time he was aiding, with his peculiar talents, the Legislature in its efforts to override the courts. That Kendall was a vindictive, narrow-minded partisan is as certain as that he had administrative ability. He had been an advocate in Kentucky of the power of the States to tax the branches of the Bank within their borders; when the Supreme Court declared they had not, he never forgave humanity for it, and thereafter indulged his grudge against the Bank. He now declared that the branch at Lexington had used its

powers in a political campaign. When called before a Congressional committee to give evidence it was only hearsay. He had no personal knowledge of such a thing, and yet his talk served as a part of the "stock" testimony unfavorable to the Bank. Kendall's charges were disproved by residents of Kentucky, besides which the president and seven out of eight of the surviving directors of the Lexington branch, published affidavits denying that their bank had ever contributed to the funds of any political party. Nevertheless, it is likely that his assertions influenced the President, who found Kendall a useful instrument at every stage of the contest.

Blair was a bankrupt politician from Kentucky, full of heresies, economic and political. He had once owed the branch at Lexington $20,744, which he defaulted on, and finally settled by paying $2,237. This should be remembered when he is heard thundering against the Bank as a despoiler of the people.

Whether it was the personal enmity that a few men felt, or that they were actuated by a conviction of factional necessity, or merely that they deliberately calculated the political value of the Bank as an active force allied with them in partisan warfare; or in default of that, the popularity of waging war on it before the people, the fact that they secretly plotted together for its control or destruction, is indubitable, as is the further fact that they began the action with all the art of finished conspirators.

Benton, a stanch defender of Jackson's course, in his

voluminous writing on the subject, did not attempt to disguise the fact that Jackson began the contest with the intention of destroying the Bank, nor of his own hearty approval of that object, the ultimate purpose being the deposit of the public funds in local banks "in the interest of the Government"—which meant nothing but the political advantages of the Jackson party.

There was a slight rumble of the approaching storm early in 1828, when P. P. Barbour introduced a resolution in the House recommending that the Government should sell its shares in the Bank. It is illustrative of the favorable feeling there was in Congress at that date that the resolution was defeated 174 to 29. It is indicative also of the feeling in the business community. There were still a few old-time sticklers about the constitutionality of the Bank, but this question had ceased to be a live one.

In January, 1829, just after Jackson's election, the Postmaster General, John McLean, informed Biddle that he had received reports from several Congressmen, complaining that the officers of the Kentucky branches of the Bank had been interfering in politics. It was suggested that to avoid such unfair influence, directors of the branches should be chosen equally from both political parties. R. M. Johnson, of Kentucky, furnished a list of Jackson henchmen in that state who were recommended as eligible and fit for such positions.

Biddle answered that the Bank's appointees were

not chosen from political consideration, and repudiated the idea of a system of "political balance," as being sure to foist upon the Bank "incompetent or inferior persons." He warned the officers of the Kentucky branches to desist from political action, and received their assurance that they had not given any cause for the charges. They also declared that the "eligibles" furnished by Johnson were unfit for positions about a bank, and designed merely to make of the branches political machines. The cashier at Louisville declared that there was a scheme to make a Jackson partisan president of that branch. There is supporting testimony that the sins of the branch bankers were rather of omission than commission—omission of actively helping to elect Jackson.*

And we have this testimony from another authority who knows whereof he speaks: "In the presidential campaigns of 1824 and 1828, the Bank was not mentioned. In all the political pamphlets, volumes, newspapers, campaign papers, burlesques and caricatures of those years there is not the most distant allusion to the Bank as a political issue."—*Knox's History of Banking. p 61.*

It is worth mention that the cashier of the Nashville branch, appointed in 1818, through the recommendation of Andrew Jackson, proved recreant. Under his management and connivance there were the most reprehensible operations of any of the branches, next to Baltimore.

*Catterall p. 177.

Jackson was inaugurated March 4, 1829. In June of that year his Secretary of the Treasury, Samuel D. Ingham, addressed a letter to Biddle, the president of the Bank, enclosing one from Senator Levi Woodbury of New Hampshire. In this letter Woodbury entered a complaint against Jeremiah Mason, recently installed president of the branch at Portsmouth, N. H. One of the charges against Mason was his brusqueness of manner, another was his insistence on punctuality in payments to the Bank when due. It was also alleged that Mason showed partiality in granting discounts, intimating that political preference had something to do with it.

Ingham in his letter commented on the enclosure to the effect that it was common notoriety that all the banks were political, admitting, however, that such complaints emanated from all parties. Biddle made an investigation of the matter, and in one of the several letters he wrote Ingham during the next few months, stated that the branch at Portsmouth had previously been badly managed; that Mason had been appointed as a competent banker and lawyer to bring about necessary reforms there; and that as his unpopularity, as regarded manners and collections, was as great with members of one party as another, it could not be because of any political activity, but merely because the people objected to punctual banking methods. No doubt some had hoped for favors on the ground of political sympathy as they might have been accustomed to, and not getting them, had complained.

But Ingham did not choose to consider this an adequate explanation. In his next letter to Biddle he maintained there must be just grounds for complaint, and ventured the significant statement that exemption from party preferences in conducting a bank was impossible; adding as significantly that this was the view of the administration. This letter is a most important one in the documentary evidence of the Bank war. It has since been construed by the most able commentators as an insidious attempt to draw Biddle into damaging confessions, which would furnish the administration material for some more tangible charges. Biddle visited the Buffalo and Portsmouth branches during the summer, and seems to have made a careful inquiry of the circumstances surrounding them; and also sought to inform himself as to other branches through demands for reports from their officers, showing thereby a genuine desire to know whether any political influence was being exerted by them, or any favors shown on political grounds. He so informed Ingham in a letter, September 15, and in answer Ingham exposes something very much like duplicity by pretending to be surprised that Biddle could have so misunderstood him; charged him with perverting his statements, and calls his denials that the Bank ever made or withheld a loan for political reasons "too confident if not presumptuous."

This attack on Mason grew out of the enmity between him and Woodbury, as Knox clearly shows.

The two had been political opponents, and back in 1825, Mason had come very near being elected to the United States Senate. Woodbury defeated him by intrigue, it is alleged, and the animosity then engendered had not abated. In his fight on Mason, Woodbury was now killing two birds at a throw—serving Jackson and working off an old grudge.

At about this time Biddle informed Ingham that he had received two memorials from Isaac Hill, second Comptroller of the Treasury, and a Jackson henchman. One of these memorials came from the business men of Portland, and the other from sixty members of the Legislature of New Hampshire, requesting Mason's removal, and nominating a board of directors, "friends of General Jackson in New Hampshire." It will be remembered that Hill was from New Hampshire, and was as pestiferous a politician as any of that day. His activity is shown in the fact that he also induced the Secretary of War to order a removal of the pension agency from the Portsmouth branch to a bank at Concord, of which he, himself, had been president. The attempt of the community to dictate not only who should be president, but also the board of directors of the branch bank, and further that they should be of the Jackson faction, is curiously illustrative both of the popular ideas about the nature of a bank, and of the offensive partisan work of Jackson's official appointees.

Any one who would comprehend the despicable political character of these movements and deliberate

attempts to use the Bank for political advantage, cannot dismiss these instances lightly. The attempted removal of the pension funds was lawless, as Biddle pointed out in his protest, and the order of the Secretary of War was revoked. But as has been observed by a distinguished writer, there was a co-ordination about these numerous attacks, both insidious and bold, which makes them look as if they had been planned by the clique at Washington. One can hardly read Ingham's second letter to Biddle without the feeling that it was a deliberate attempt at political blackmail; if they should find him approachable and pliable they would use him to advantage. To convince him that he was not toying with harmless instruments, they began their worrying tactics. He was not the most self-contained man, and he finally returned some pretty sharp letters rebuking their inuendo. In a straight-forward way he denied that public opinion around a bank is any test of the quality of its management, and declared that the reported opinion at Portsmouth upon examination, "degenerated into the personal hostility of a very limited and for the most part, very prejudiced circle." He then takes up three points suggested in Ingham's letter: 1. That the Secretary, by virtue of the relations of the Government, has some supervision over the choice of officers of the Bank. 2. That there is some action of the Government on the Bank which is not precisely defined, but of which the Secretary is the proper agent. 3. That it is the right and duty

of the Secretary to make known to the president of the Bank the views of the administration on the political opinions of the officers of the Bank. To these Biddle rejoined that the board of directors of the Bank acknowledged no responsibility whatever to the Secretary in regard to the political opinions of the officers of the Bank. That the Bank was responsible to Congress only, and was carefully shielded by its charter from political control. Indignantly denied that freedom from political bias in bank management is impossible, and showed the folly of the notion of political "checks" and "counter-balances" between the officers of the Bank, and declared that the Bank ought to disregard all parties.

The three suggestions from Ingham showed depraved political ideas and motives, and it was not intended to leave any doubt that he was speaking for his master. They carried covert threats of persecution, and were in effect the announcement of the administration to the president of the Bank, that he must yield to their dictates in mixing banking with politics; that is, that the Bank must become an instrument of the administration or be regarded by the latter as a dangerous enemy.

Biddle's answers were manly and to the point, and it would not have affected the situation if he had been more discreet. He was a ready writer, and has generally been criticised as having used his pen without prudent restraint in this correspondence. But he told the truth and "he would have won a complete

victory on the argument of his points if he had been before an impartial tribunal, but he stung Ingham's vanity and on the main issue he delivered himself into the hands of his enemies." (Sumner)

It is the fair verdict of impartial writers that Ingham was a hypocrite. In his last letter to Biddle he put on an injured front, claiming that he was forced to defend himself from the charge of trying to seduce the Bank into political relations with the administration. Said he had claimed that *if* the Bank abused its powers, the Secretary could remove the Government deposits; declared the Bank was "exclusively for national purposes and for the common benefit of all, and that private employment is only an incident—perhaps an evil one—founded on mere convenience for care and management." Strange assertions coming from one of his standing—that the Bank had been organized only to transact Government business, and that other matters were incidental. If his letters to Biddle has shown a depth of hypocrisy, this showed the shallowness of his understanding—assuming that he was not practicing hypocrisy here, too.

If there could remain any doubt of Ingham's duplicity it would have to give way before the evidence of his own utterance. "After he (Ingham) left the Treasury he confessed that the members of the 'kitchen cabinet' used to abuse the trusting ear of Jackson with terrible tales of the corrupt influence the Bank was exerting in controlling elections in opposition to him."—*Knox, p 67.*

These cumulative attacks from the Jackson adherents of Kentucky, from Ingham, from Hill, from Woodbury and his Jackson clan in New Hampshire, from Kendall, Fourth Auditor of the Treasury, from the Secretary of War and the Commissioner of Pensions, coming in such sequence as to leave no doubt of their prearrangement, convinced Biddle and the directors of the Bank, that there was a concerted movement to convert it into a Jackson party machine.

Biddle's final reply to Ingham indicates that he was frightened at last. His letter was in a more friendly strain, and only to the effect that it was the policy of the Bank to keep out of politics. He was probably not surprised when Jackson fired his first shot at the Bank in his message of December, 1829. In this the President observed that the charter of the Bank would expire in 1836, and that the question of renewal could not too soon be brought before Congress and the people. "Both the constitutionality and expediency of the law creating the Bank, are well questioned by a large portion of our fellow citizens, and it must be admitted by all that it has failed in the great end of establishing a uniform and sound currency. Under these circumstances, if such an institution is deemed essential to the fiscal operations of the Government, I submit to the wisdom of the Legislature whether a national one, founded upon the credit of the Government and its revenues, might not be devised, which would avoid all constitutional

difficulties and at the same time secure all the advantages to the Government and the country that were expected to result from the present Bank."

It is not an agreeable task to question Jackson's sincerity, but it is not overstepping the bounds of criticism to say, that this utterance was unworthy of a man of his exalted position. Clearly, it was the "kitchen cabinet" speaking through his message. It was neither a strict observation of truth with regard to the doubtful constitutionality of the Bank, nor of its effects on the currency; while the vague but startling proposition, that the Government should start a bank on its revenues showed a remarkable confusion of ideas on the subject.

In regard to the President's statements, Professor Sumner says: "Statistics exist which show the value of the currency in different parts of the country for every year from 1814. These show that the currency had steadily grown toward uniformity at par of specie from 1819 to 1829. No person living could remember when the currency had been as good as it then was including that of the new States. So much as to the matter of fact; as to the matter of opinion, the correctness of which is open to doubt, there was scarcely anybody amongst the classes conversant with affairs who did not believe that the Bank of the United States was to be credited with having brought about this state of things."

The vague and confused proposition of the President about a bank "founded upon the credit of the

Government and its revenues" very naturally caused alarm. It was feared that he had in view something like the State bank paper-making machines. The stock of the Bank dropped from 125 to 116, as it was suspected the President knew something unfavorable about it. As to the "question" of the Bank's constitutionality, the impudence of the assertion on this point will be found exposed in the House report following.

That part of the Message relating to the Bank was referred to the Committee on Ways and Means, which consisted of McDuffie, Verplanck, Dwight, Smyth, Ingersol, Gilmore and Overton—fairly representative of all sections and both parties. The Committee gave the task of formulating a report to McDuffie, as the member best equipped on the subject of banking. The report of this South Carolina democrat is voluminous, exhaustive, and is recognized as an exceptionally able state paper. It should be remembered that this was before the nullification trouble, and that McDuffie, while exposing the folly of the President's utterances, expressed the most sincere personal regard for him. Enough will be quoted from this masterly report to show what was thought of Jackson's sentiments toward the Bank by some of the leaders of his own party—in fact the large majority at that time.

"When the charter (of the first United States Bank) expired in 1811, Congress refused to renew it, principally owing, as the Committee believe, to the

then existing state of political parties. Soon after that bank was chartered, the two great parties that have since divided the country, began to assume an organized existence. Mr. Jefferson and Mr. Madison, the former in the executive cabinet and the latter in Congress, had been opposed to the establishment of the bank on constitutional grounds, and being placed at the head of the party most unfavorable to the extension of the powers of the Government by implication, the bank came to be regarded as in some degree the test of political principle.

"When Mr. Jefferson came into power on the strong tide of political revulsion the odium of the Alien and Sedition laws was in part communicated to the (first) Bank of the United States....and it was discussed as a party question.

"In less than three years after the expiration of the charter, the war with Great Britain having taken place in the meantime, the circulating medium became so disordered, the public finances so deranged and the public credit so impaired, that the enlightened patriot, Mr. Dallas, who then presided over the Treasury Department, with the sanction of Mr. Madison, and as it is believed, every member of the Cabinet, recommended to Congress the establishment of a national bank as the only measure by which the public credit could be revived and the fiscal resources of the Government redeemed from a ruinous and otherwise incurable embarrassment;and such had been the impressive lesson taught by the very brief,

but fatal experience, that the very institution, which had been so recently denounced and rejected by the Republican party, being now recommended by a Republican Administration, was carried through both branches of Congress....by an overwhelming majority, notwithstanding the decided opposition of all the State banks and their debtors; and indeed the whole debtor class....Since the adoption of the Constitution a bank has existed under authority of the Federal Government for 33 out of 45 years, during which time public and private credit have been maintained at an elevation fully equal to what has existed in any nation in the world; whereas in the two short intervals, during which no national bank existed, public and private credit were greatly impaired, and, in the latter instance, the fiscal operations of the Government were almost entirely arrested....

"But it is impossible to exhibit anything like a just view of the beneficial operations of the Bank, without adverting to the great reduction it has effected and the steadiness it has superinduced in the rate of the commercial exchanges of the country. Though this branch of the business of the Bank has been the subject of more complaint, perhaps, than any other, the Committee have no hesitation in saying it has been productive of the most signal benefits to the country, and deserves the highest commendation." *

The Report then took up other matters that had been the subject of criticism. As to foreign interests,

*Doc. Hist.

foreigners owned $7,000,000, or one-fifth of the capital. As to its being a power of the wealthy, it was true that $2,000,000 of the stock owned in the United States, was owned by persons holding over $100,000 each. But persons holding less than $5,000 each held $4,682,000 of the shares; persons having between $5,000 and $10,000 each, held over $3,000,000, while nearly $6,000,000 was held by trustees and guardians for females, orphans, and charitable and other institutions. Only $3,453,000 was now held by the original owners, the rest having been purchased at the market price, or greatly above par. Yet some claimed that to renew the charter would be equivalent to a grant to the rich of the amount above par—some 20%.

"To destroy the existing Bank, therefore, after it had rendered such signal service to the country, merely with a view to create another, would be an act of cruelty and caprice, rather than of justice and wisdom, as it regards the present stockholders. It is no light matter to depreciate the property of individuals, honestly obtained and usefully employed, to the extent of $5,600,000, and the property of the Government to the extent of $1,400,000, purely for the sake of change. It would indicate a fondness for experiment which a wise Government will not indulge upon slight consideration.

"But the great injury which would result from the refusal of Congress to re-charter the present Bank would, beyond all question, be that which would

result to the community at large. It would be difficult to estimate the extent of the distress which would naturally and necessarily result from the sudden withdrawal of more than $40,000,000 of credit, which the community now enjoys, from the Bank. But this would not be the full extent of the operation. .... The pressure on the active industries and enterprising classes who depend most on the facilities of the Bank credit would be tremendous."

Thus it is shown that both the President's insinuations and statements concerning the bank were entirely unwarranted. In addition to what has been given, it should be said that the Supreme Court of the United States had upheld the constitutionality of the bank in the case of McCulloch vs. Maryland in 1819, and again in the case of Osborn et al v. the Bank in Ohio, besides several other cases that could be quoted. So here we have it that the doubt of unconstitutionality had been set aside by both political parties, and the legality of the charter sustained by the highest court in the land; yet in the face of all this the President talks about the Bank's unconstitutionality being well questioned by a "large portion" of the citizens. It is in keeping with the lack of respect for authority that was characteristic of that period.

It is worth while to contrast the excerpts from the McDuffie report with the literature emanating from the anti-Bank clique, such as the Ingham letters

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*Doc. Hist.

and even those parts of the President's messages dealing with the Bank. It proves how hollow and unreasonable were the objections they raised. One is forced to consider, too, that McDuffie's forecast of the injury that would be worked, should the Bank be refused a new charter, describes just what did happen a few years later. But McDuffie went further in his tribute to the Bank:

"It is but justice also to remark that the direction of the mother Bank appears to have abstained, with scrupulous care, from bringing the power and influence of the Bank to bear upon the political questions, and to have selected for the various branches, business men, in no way connected with party politics." And this should be contrasted with the claims that the President was making through Ingham, Kendall and others concerning the political interference of the Bank.

The most cutting part of McDuffie's report, however, was that wherein it paid its respects to Jackson's recommendations for some kind of a national bank for which the people should be taxed. So far as the recommendation could be understood, it was for making an engine for political patronage in the small army of employes, and the dispensation of bank accommodations to the standing amount of at least $50,000,000. "The mind almost instinctively shrinks from the contemplation of an idea so ominous to purity of the Government and the liberties of the people. No government of which the committee has

knowledge, except perhaps the despotism of Russia, was ever invested with a patronage at once so prodigious in its influence, and so dangerous in its character.... If the whole patronage of the English monarchy were centered in the hands of the American executive, it may be well doubted whether the public liberties would be so much endangered by it as it would be by this vast pecuniary machine, which would place in the hands of every administration $50,000,000, as a fund for rewarding political partisans....and would not the Treasury of the United States under the sanctifying influence of party delusion and party infatuation, be literally plundered by mercenary retainers, bankrupts in fortune, and adventurers in politics!"

One can only imagine what Jackson said or thought on reading this. He is quoted as having pronounced the whole report as "feeble." But no sensible man can doubt that it outlined just such a situation as the stubborn-minded President had in view; and that indirectly it exposed the motives that underlay the whole Bank opposition. One is led to wonder at its duplicity all the more when Ingham is found to have expressed great satisfaction the year of this Message with the way the Bank made transfers of public funds. The President himself, in his Message of 1829, complimented the Bank on its arrangement for paying the public debt during the commercial distress of that year, without causing any noticeable

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addition to the pressure, or even visible effect on the operations of the State banks.

The date of the McDuffie report was April 13, 1830. In that year the Government paid $3,000,000 on its stock note in the Bank, and in 1831 paid the other $4,000,000. In July, 1831, the Bank had $7,000,000 of specie in its vaults, which, however, was much less than the previous year.

In the Senate, Smith of Maryland reported from the Committee on Finance in favor of the Bank at every point. His main topic was the expediency of establishing a uniform national currency. He declared that the notes of the United States Bank were such a currency, and that funds were transferred from Philadelphia to St. Louis, New Orleans, and other extreme points for ½ of 1%. This is an answer to the charge that we have seen raised, that the Bank was extortionate in its charge for exchange.

"When a word of order is given out to a party, the partisans, eager to distinguish themselves by their zeal, hasten to push it to extravagance. It must, therefore, be strong proof that the attack on the Bank responded to no strong feeling in the popular mind, that it hung fire for two or three years. The leading politicians in the Jackson party were so committed to the Bank, that it was awkward for them to turn against it; and it was at least three years before the local banks, seeing the opportunity which was offered to them, began to join in the war on the Bank. Politically this last effect was the

most important of all. It was the formation of the Bank democrats as a wing of the Jackson party, which gave that party its strength and accounted for its victories. The Bank democrats were all won from amongst those who otherwise would have been Whigs. The distribution of the deposits in 1836, weakened them and the independent treasury alienated them from the Democratic party, and brought about the great defeat of the latter in 1840." This quotation from Sumner is instructive at this point.

May 10, 1830, the House tabled a resolution to the effect that it would not consent to a renewal of the charter, 89 to 66, and May 29, by a vote of 95 to 67, tabled a series of resolutions calling for a comprehensive report of the proceeding of the Bank, for as yet there were no allegations against the management. The stock now rose to 130. But the war on the Bank had not been begun in a spirit that was amenable to argument or reason, and of course neither the McDuffie nor the Smith report, however convincing to fair-minded men, had any deterrent effect on the anti-Bank coterie. The fire was renewed by Jackson again advising, in his Message for 1830, the establishment of a new bank, "as a branch of the Treasury Department." The outline, however, was even more undefined than in his first proposal. It would seem that the merciless flaying which his previous proposition had received, might have caused a modification of the scheme for a bank as an adjunct to the Presidency. Some have professed to see in the

suggestion last made the nucleus of the sub-Treasury system; but it may be doubted if the President had any definite ideas on the subject. It is not unlikely that he got his first suggestion from Jefferson.*

In defence of the President, it has been attempted to lay the blame for the plotting to Isaac Hill and Levi Woodbury, but this is entirely untenable. Amos Kendall and Francis P. Blair had as much or more to do with it, and they were more constantly voicing their sentiments and schemes into Jackson's ear. Kendall had inspired an article in the New York *Courier* and *Enquirer* in November prior to Jackson's first Message, outlining in a set of queries, what should be done about the Bank, and which embodied the future program of the administration. It has been said, too, that the attempt to force Jackson adherents on the Bank was merely an attempt to change it from being entirely a Whig institution. That is distorting the issue. No doubt most of the directors were Whigs—they were chosen from among the better class of business men, most of whom were of that party. But they were chosen as competent men, and not for their party affiliations.

At this period Jackson was professing regard for Biddle, while scheming against the Bank. After

*"We can enter upon no analysis of his reasoning, and must refer to his letters. Their general purport was to propose a substitute for the bank, to issue Treasury bills on a specific tax appropriated for their redemption."—Randall's *Jefferson*, III-386.

the McDuffie report he censured Duff Green, editor of the *Telegraph*, for not denouncing the Bank in strong enough terms, and declared another paper would be found for the purpose. The *Globe*, and Blair, resulted.

CHAPTER V

THE second Message found a strong supporter in Wayne of Georgia—whom the President subsequently appointed to the federal Supreme Court. Wayne wanted the bank part of the Message referred to a special committee, alleging the Ways and Means was hostile to the President's views; he believed such a bank as the President suggested could be devised, and wanted unprejudiced consideration. The House refused him, 108 to 76.

February 2, 1831, Benton, who became a supporter of the President's bank policy, asked leave of the Senate to introduce a Resolution declaring that the Bank should not be re-chartered. Refused, 23 to 20. In July, that year, the Secretary of War ordered the pension funds for New York State removed from the New York branch. Biddle remonstrated, the order being the second one of the kind issued in defiance of law, as the pension funds under terms of the charter were required to be kept in the Bank and its branches at such places as had them. In the previous case (New Hampshire) the Auditor had refused to accept such an order as a voucher. Secretary Cass revoked this last order March, 1832. These attempts show

how the Administration was working to undermine the Bank, heedless either of laws or the safety of the public funds.

In 1831, the President was mildly militant toward the Bank. Even his Message of that year was hardly aggressive, the subject being referred to as one on which he had already discharged his responsibility. In fact his attacks had appeared to meet with little approval, either from the general public or from his party. Livingston and McLane in his cabinet were using conciliating arguments favorable to a re-charter of the Bank, and were given a partial promise by Jackson, that he would consent to it after the presidential election the following year, under modifications, the principal being that the Government should hold no stock. All the cabinet members, with one exception, were opposed to his ruinous policy. McLane, Secretary of the Treasury, in his report this autumn, made an extended argument favoring the Bank at all points, and produced something of a sensation, it being so in conflict with the sentiments of the President. But it was remembered that McLane was originally a Federalist, and the anti-Bank set sneered apologetically at his opinions. Blair excused him in an editorial in the *Globe*, at the same time giving him to understand that he had overstepped his proper limits.

It is clear that during this year Biddle did not despair of Jackson, being confident of strong support in the cabinet. While matters were practi-

cally arranged to wait till after election, the Bank was not slumbering. It had, after once becoming convinced of the designs of the Administration, set about to counteract whatever effect they might produce. It resorted to circulating pamphlets, and in purchasing space in newspapers for the publication of reports and speeches favorable to it. So far, although two years had passed since the first attack, it was uninjured, so far as could be discerned. It may have been that this activity gave Jackson new offence, this and the favorable attitude toward the Bank of the National Republicans, Clay's party. At any rate there is good reason to suspect that he played false to his promise—or at least his implied promise—to Livingston and others, and prompted the move that was made by Benton and Clayton for an investigation, to be noted later.

It was a weak point in the Bank that the stockholders held meetings only triennially. One of these meetings was held in September, 1831, at which Stephen Girard presided. A report was issued by a committee of seven, of which Horace Binney was chairman, and which verified the statements of the directors. It showed a perfectly healthy condition, with circulation nearly $23,000,000, deposits $16,368,000, including $7,252,000 Government funds, and loans on personal security $41,585,000. During the previous three and a half years, dividends had been 7½%. Its managers asserted, with every evidence of truthfulness, that "the welfare of the United States

Bank is now fully identified with that of the American people."

Now an unfortunate series of happenings worked to the Bank's disadvantage. It does not appear that the overtures made by the National Republicans were encouraged by it to the extent to make their leaders assume that it would join forces with them as against Jackson and the Democrats. It was not until December, 1831, when the National Republicans, in their convention at Baltimore, nominated Henry Clay for the presidency and adopted a platform pledging to support re-charter—in fact resting the principal plank of their platform on the Bank—that it became definitely understood that the charter would be a campaign issue. It seems that Biddle was not anxious for this, and would not have given his consent to it if he had felt any confidence in Jackson, or had obtained what he considered a definite promise from him that he would not oppose the re-charter after the election was over. As it was, he acted against the advice of some of his most influential associates and friends.

The Clay supporters no doubt believed that they could defeat Jackson on the Bank issue. They proposed to have the bill for the re-charter passed, and force the problem on the President. If he should veto it they felt sure he would lose Pennsylvania, while if he failed to do so, he would sacrifice much of his strength in the South and West. It appeared like a shrewd move, and a fairly safe one for the Bank

to link its chances with; the worst thing about it being the fact of throwing its fortunes into the political arena, and becoming a recognized party institution. Biddle has been censured for being drawn into the scheme, but it was a situation he could not control. Clay would not wait. The National Republicans would advocate re-charter anyhow, and whether the Bank supported or became allied with them or not, it would probably kill its chances with Jackson. If it refused to join with Clay it would be accused of treachery or ingratitude, and having thus sacrificed friendship in that quarter, its chances would be very slender even if Clay should win. The convention that nominated him, in an address to the public, said that the President was "fully and three times over, pledged to the people to negative any bill that may be passed for re-chartering the Bank, and there is little doubt that the additional influence which he would gain by a re-election would be employed to carry through Congress the extraordinary substitute which he has repeatedly proposed."

Of course it was construed by the Jackson party as a movement by the Bank, and we find Benton asserting now that the Bank had attacked the Administration. By them it was made to appear that Jackson had receded from his policy, had then been attacked, and thus had been forced to renew the fight to a finish. In considering the probability of this, one must consider Jackson's disposition. It

is not at all likely that he ever relented in his rancor toward the Bank, but merely bided his time, and assisted to bring about a condition of affairs that would upset all the plans for putting the question over till after the election.

In January, 1832, the memorial of the Bank for renewal of its charter was presented in the Senate by Dallas, and in the House by McDuffie, both democrats, but both favorable to the Bank. Biddle had been in favor of having Webster present it, and only deferred to Dallas, son of the Secretary of the Treasury, to whom, more than any other man, the Bank owed its existence, who claimed the duty as belonging to a Senator from Pennsylvania. He, however, did not manage the matter with much skill; doubted whether the movement was not premature, and also as to the policy of the memorial, "lest it might be drawn into real or imaginary conflict with some higher, some more favored, some more immediate wish or purpose of the American people." This did not show much enthusiasm, but was more the trepidation of an untried leader; and in both Chambers the reports were favorable. The bare possibility of the re-charter being denied had been sufficient to encourage the proposition from different sources of wild and extravagant bank schemes, some one of which it was feared might be tried as an experiment with financial disaster, if the Bank were not to go on. In the Senate the memorial was referred to a select committee (of which both Webster and Hayne were

members) and the bill ordered to second reading; but was then laid on the table pending an investigation ordered by the House.

Soon after the opening of the Clay campaign, the Jackson party renewed its attempts to cast odium on the Bank. Benton was the head and front of the movement in the House, and it is not doubted that the paper containing the seven alleged important charges, and fourteen minor charges and specifications, which Clayton of Georgia used as the basis of his demand for an investigation of the bank, was in his hand-writing. Clayton submitted his resolution containing the counts and this demand in February, 1832. The House appointed a Committee which reported April 30. This is the famous investigation of 1832, out of which arose much acrimony, and which has ever since been the subject of misapprehension and mis-statements. The examining Committee had been directed by the House merely to inquire and report whether or not the provisions of the Bank's charter had been violated. But a majority of the Committee was hostile, and took up all the points noted, and proceeded to examine all the affairs and the officers of the Bank. It made a recommendation for postponement of the charter till the public debt had been paid, this report being signed by R. M. Johnson, who intimated that he did it to please the Committee, and stated on the floor of the House, that he had not looked at a document in Philadelphia. The minority recommended

that the charter be renewed, this report being signed by J. Q. Adams.

As the seven serious and fourteen minor charges seemed to contain all that anybody knew or could by the furthest stretch trump up against the Bank, and also for the reason that a review of the findings in detail give an insight into the actual conditions of the institution, as well as of the methods that were being pursued against it, the necessary space will be given to it. The points of the seven high charges are as follows:

1. Usury—technical violation of the limit of six per cent, provided in the charter; this alleged violation being charges for discounts and domestic exchange together.

2. Branch drafts as currency. The amount of these outstanding was $7,400,000. The majority of the Committee doubted the lawfulness of branch drafts, but said nothing about danger from them as instruments of credit. (It has already been noted that their legality was established in opinions from Webster, Binney, Gallatin and Wirt.)

3. Sales of coin, especially American coin. The Bank had bought and sold foreign coin by weight and had sold $84,734.44 of American gold coin. The majority held that foreign coins were not bullion, because Congress had fixed their value by law. Adams exposed the shallowness of this claim. All gold coins at this time, American included, were a commodity, not money.

4. Sales of public stock. The Bank was forbidden by its charter to sell U. S. Bonds. In 1824, upon the refunding of the public debt, the Bank subscribed for a new issue. It had special permission by Act of Congress to sell them. Nevertheless, the majority shut its eyes to that fact and disproved of the sale.

5. Gifts to roads, canals, etc. The Bank had made two subscriptions of $1,500 each to the stock of turnpike companies. The other cases were all petty gifts to local fire companies, etc. The majority argued that since the administration had pronounced against internal improvements, the Bank ought not to have assisted in such works! Adams said the internal improvements were opposed by the administration on the ground of unconstitutionality, when undertaken by the Federal Government, and asked what argument that furnished against such works when undertaken by individuals? The gifts were thought such as proper for the Bank to make to increase its security, etc. What harm was there in *that* to the administration?

6. Building houses to rent or sell. The Bank had been obliged in some cases to take realty for debts when it could not sell, and had in a few cases improved. The amount was trivial, and the cases such as involved no intentional violation of the charter.

7. Non User. The charge being that the Bank had failed to issue notes in the South and West. This was easily proved false, and according to Adams would not have been a charter violation anyway.

Now come the fourteen minor charges involving mismanagement, etc., and the truth about them as discovered.

1. Subsidizing the press. Charged, that Webb & Noah, of the "Courier & Inquirer" (Administration organ to April '31, when it flopped on the Bank question) borrowed at the Bank. Noah got a loan there to buy a one-half interest in the paper. Obviously this was a bad case—the Bank lending money on security to the publishers of a newspaper not favorable to Andrew Jackson. But it was found that publishers of administration organs also had loans from the Bank. What then? Adams declared there was no law against subsidizing the press, the phrase meaning nothing. Should editors be allowed no Bank accommodations? It appeared then, that if the Bank discounted a note for an administration editor, it had subsidized him; if for an opposition editor, it was a bribe.

2. Favoritism to Thomas Biddle. Thomas was a second cousin to Nicholas, and was the Bank's broker. This count was on charges made by one R. M. Whitney, who "was placed in respect to the important object of his evidence in the position of a convicted calumniator." Thomas Biddle did have large loans amounting to $1,131,672 at 5%. Whitney claimed at no interest.

3. Exporting specie and drawing specie from the South and West. The branch drafts helped to produce the result of drawing silver North and East

from the South, but no harm resulted. More specie was imported to New Orleans from Mexico than before, and there was more of it in the Mississippi Valley. "The charge of causing an export of specie was only an expression of ignorant popular prejudice." (Perhaps there should have been town meetings to sanction it when drafts were sold on London for use in China.)

4. Improper increase of branches. There may have been—Cheves thought so. But the Bank was importuned to establish them, and was complained of if one was lacking where influential politicians wanted it. Most of these thought there were too few.

5. Over-expansion of circulation. As to this, the Bank always made a good showing as to cash against liabilities.

6. Failure to serve the nation. Somehow it was thought the Bank gained by transferring funds from the Atlantic Coast inland. Nothing apparent in the charge.

7. Mismanagement of public deposits. This charge simply showed that the majority was ignorant.

8. Postponement of payment of the 3% Bonds. Friends said, Biddle's reasons were good; enemies said, they were bad. It does not seem that any harm had been done.

9. Incomplete number of directors. This was caused sometimes by appointment of Government directors being delayed in the Senate. But what a crime to accuse the Bank of!

10. Large expenditures for printing. This amounted to $6,700 in 1830, $9,100 in 1831. From 1829, the year of the first attack, the Bank had put out several publications to counteract the influence on public opinion.

11. Large contingent expenditures. There was a contingent fund, the footings of which, in 1832, were $6,000,000 to sink losses of the first few years, the bonus, premiums on public stocks bought, banking houses, etc. The suggestion was that in this might be hidden a corruption fund.

12. Loans to members of Congress in advance of appropriations. Adams objected to this as an evil practice. He said afterwards that the investigation into this was dropped because it was found that a large number of Congressmen of both parties had had loans.

13. Bank refused to give list of stockholders resident in Connecticut, to authorities of Connecticut for taxing purposes. It was not under legal obligations to do so.

14. Usurpation of the control of the Bank by the Exchange Committee of the Board of Directors to the exclusion of the other Directors. This charge denied, and not well proved.

The frivolous nature of all but two or three of the counts in this list of charges is apparent, and they must have been incited either by ignorance or malice. Sumner makes this comment: "If we sum up all points made by the majority of the Committee, they

appear to maintain that the Bank ought to lend the public deposits liberally and draw them in promptly when needed, in order to pay the public debt, yet refuse no accommodation (especially to any one who was embarrassed) except anti-Administration editors; should not sell its public stocks, not increase its circulation, not draw in its loans, not part with its specie, not draw on the debtor branches in the West, not press the debtor local banks, and not contract any temporary loans." The reading and thinking public considered it a complete vindication, excepting those who were biased. The investing public was highly pleased at the finding, because if this was all that malevolence armed with the most powerful means of attack could do, the Bank must be in every way sound.

It is asserted by cautious writers, who manifestly aim at impartiality in their judgment, that neither this investigation nor any other made by a Congressional committee, was as deep and thorough as the case required, nor free from political bias. In this instance it is said the examination rested too much on statements of the directors and officers. This is not unreasonable. The most unfavorable view of the conditions relate to the postponement, at Biddle's request, of the redemption of three per cent bonds of the Government, and such subsidizing as the Bank had done. As to the first, his plausible reason was suspected as not being the true one, the real one being that the Bank was experiencing a stringency owing

to the operations of the branch-draft system, by which so much capital was drained away to the non-paying branches; and would have been hard pressed to meet the Government drafts. Admitting it, where was the transgression? Jackson and others had censured the Bank for drawing specie away from the South and West. Now it is attempted to make a wrong out of a system that worked the other way. Whatever wrong there was lay in the branch-draft scheme, which proved dangerous; but at the most was an error of policy.

Then it is noted that the Bank, as was proved later, had already begun making donations to railroad and canal enterprises. But it will be seen that these were inconsiderable in proportion to the vast business and income of the Bank; and when it is remembered that it was the custom of the time, that banks generally were virtually compelled to do so; that such enterprises did not then have Government aid, and depended on private generosity, it seems querulous to urge this as a reflection either on the motives or the prudence of the Bank. Investigations of 1832-'34, found that donations of this character from 1817 to 1831, totaled $4,620.

It will be found that in 1836, and later, the charge relating to Thomas Biddle then applied, the cotton speculations in connection with him being one of the transgressions that contributed to its final downfall. The charge (2) concerning the action of the Exchange Committee in exeluding three of the Government

directors from participating in the transaction of its business, touched a vulnerable spot. The excuse was that those directors were acting more as spies for the President than in the interest of the shareholders, and sought to impede and hamper the committee in the performance of its duties. It was a strong symptom of the evil resulting from the antagonism of the administration. It may be admitted that the Bank was feeling the ill effect growing out of the attacks, open and insidious, that had been made upon it to a greater degree than the investigation disclosed, but when the character of these attacks are considered, the time they had continued, the power that waged the warfare, and the sensitiveness of credit to evil reports, the wonder grows that the effect had not been worse.

Curtailment brought blame on the Bank for severity, expansion for lack of conservatism. On the authority of Gallatin, the Bank ceased to act as a regulator of the currency in the years 1832-'33, when it expanded its discounts and stock investments to 185% of its capital, while sound city banks did not run over 160%. He makes it clear that it was only by keeping the proportion lower than that of the other banks, that the Bank of the United States could keep them debtors and so exercise its regulative power. But this was more than three years after Jackson charged it with having failed in this respect.

Biddle's power was now at its zenith. The directors gave him practically unlimited authority to act.

He had been forced into a fight, and he was fighting, undoubtedly with all the resources at his command, the life or death of the Bank being the issue. It is utterly unreasonable to accuse him of entering politics and squandering the funds of the Bank. From 1829 to 1832, he repeatedly warned the officers of the Bank's branches to abstain from mixing in politics, and against making loans from political considerations. The record carefully examined shows that he resented interference on political grounds, resisted what has been construed by unbiased judges as political blackmail, and that prior to these advances the Bank was not charged by any responsible person with political meddling. We have heard McDuffie, a democrat, compliment it for its freedom from politics. It may have been that some of the branch officers spoke their party preferences emphatically, as every man did in those days, but every attempt to prove that any one of them had employed menace, or Bank money in campaigning, failed entirely.

Now, under necessity, the situation changed. Whether Biddle pursued the wisest course in taking quarters at Washington and making himself so prominent in the Jackson-Clay campaign may well be questioned. His intimate relationships there with members of both chambers of Congress, his lavish expenditures, his assertive manner, and perhaps some of his utterances, caused a great deal of comment. He was a national figure; his forces were aligned with those of the party opposing the Presi-

dent, and it was asked, what would he be if he succeeded in defeating his fearful adversary? His fool friends, or cunning enemies, began to speak of him as a Presidential possibility. It is questionable whether his boldness did not overshoot the mark. Yet it is said that he was not vain or over-confident, and that he expressed himself ready to accept any form of charter to which Jackson would consent. While the anti-Bank men could point to a good deal that seemed to warrant their accusation that he was corrupting Congress, and while we may allow there was some truth in it, it is significant that no particular cases were cited at that time. The most that could be established was the questionable propriety of a Member doing business with the Bank.

The anti-Bank party professed to be deeply pained at the course of the Bank. As has been stated, they declared that the Bank was forcing the fight. Benton claimed that after Jackson's first Message there was "ceaseless activity in all parts of the country on behalf of the Bank....conducted in a way to operate most strongly upon the public mind, and to conclude the question in the forum of the people before it could be brought forward in the national Legislature," yet "at the same time little was done or could be done on either side." One can see how grievous it was to senatorial pride, but not the consistency between the two statements. How was it that a Jacksonian democrat, one of the party seeking at all times to justify its course under popular approval,

could doubt the right or propriety of a financial corporation appealing to the sense and fairness of the people? It should be observed that Benton's speeches on the subject avoided the question of constitutionality, and as he says, "took up the instition in a practical sense as having too much power over the people and the Government....and being too much disposed to exercise that power to the prejudice of freedom and equality which should prevail in a republic." The intelligent reader is likely to experience a sense of regret that a man of Benton's great capacity should have indulged in such demagogic phrases. He denounced the Bank as corrupting both the press and the people, and mixed this up with the argument, which he long held to, for a metallic currency.

The Presidential issue had been joined over the Bank, unfortunately, and the bitter fight was on. The Jackson party scrupled at nothing in their utterances against the institution. As Schouler says,—"the challenge flung out, Jackson could give it but one answer; and now his champions essayed to conquer on the very lines his foemen had selected. They fought relentlessly, even brutally; and not content with offering broad objections to a new charter, of which there were many, they struck random and unscrupulous blows at the credit of the existing institution, as though to shatter its fortunes and all the mercantile and private interests which had become interwoven with its prosperity." And this, that historian properly characterizes as "mob warfare."

The renewal charter as proposed, had a few new features intended to cover flaws in the old one. It was for fifteen years. The directors were permitted to appoint officers to sign notes for less than $100. No notes or drafts for less than $50 might be issued which were not payable at the Bank where issued, and the Bank must receive from other banks at any branch the notes issued at any branch. It was to pay a bonus of $200,000 a year to the United States, and Congress might forbid it to issue notes of a less denomination than $20. A list of stockholders was to be reported to the Secretary of the Treasury annually, and a list of stockholders in any State to the Treasurer of that State on his request. The charter passed the Senate, June 11, 1832, 28 to 20. In the House no debate was allowed, because everybody wanted to propose various schemes in the way of amendments, and of course those Members who were loaded with such schemes claimed that politics forced the bill through. It passed July 3, 107 to 85 and went to the President, July 4. The Senate voted to adjourn July 16. It was understood to be for the purpose of forcing Jackson to sign or veto the bill by giving him more than ten days. Niles is quoted as saying that a week before the passage it was "six to a half dozen" whether the bill, if passed, would be vetoed, but that two or three days before its passage a veto was confidently expected. Clay is credited with the bombastic remark, "If Jackson vetoes it I will veto him."

On July 10, Jackson sent in his veto. Among other reasons were: 1. The Bank would have a monopoly for which the bonus was no equivalent. 2. One-fifth of the stockholders were foreigners; in case of war with a foreign nation a bank owned almost wholly by its subjects would be more formidable and dangerous than the naval and military power of the enemy. 3. Banks were to be allowed to pay the Bank of the United States in branch drafts, which individuals could not do. 4. States were allowed to tax the stock of the Bank owned by their citizens, which would cause the stock to go out of the country. 5. The few stockholders here would then control it. 6. It was unconstitutional. 7. The business of the Bank would be exempt from taxation. 8. There was strong suspicion of mismanagement. 9. The President could have given a better plan. 10. The Bank would increase distinctions between rich and poor—that it would present a gratuity of many millions to the stockholders; that the Bank's loans in the West were a burden on the industry of the people; that the millions of earnings which foreign holders would get would come out of the earnings of the American people. Besides, while deprecating haste in the matter of the charter now, he had in his Messages of the three previous years, urged timely action.

Special stress was laid on the second, fourth and tenth points. The operation of the Bank was also represented as a constant oppression of the people of the West, by the people of the East and of Europe.

Sumner points out that all and each of these arguments and notions were those of the old Kentucky relief contest. It will be noted that what the President had previously alleged as the chief crime of the Bank, political meddling, was not included. It would be useless to descant on their shallowness; the reader will no doubt, as has been suggested, contrast them with such arguments as McDuffie's, and draw his own conclusion. Its appeal was to ignorance, to prejudice of Americans against foreigners, of the poor against the rich, of section against section.

In estimating President Jackson's qualities and his influence on the people, as well as on the political ideas of his time, one cannot always trust too much to particular incidents or detached quotations from his utterances. But it is no injustice to him to cite particular utterances, made deliberately, discussed in his cabinet, and sent forth in his Message, as indicating correctly his temperament and habits of thought. His ruling passion was the exercise of authority. When that harmonized with law and justice and morality, so much the better; when it did not he had no apology to make. A paragraph in his Message vetoing the Bank charter is illustrative of this. In declaring his objections, he not only set his own opinion squarely against the judgment of the Supreme Court on the question of the Bank's constitutionality, but went so far as practically to deny that Court any authority over either the executive or legislative departments of the Government.

"If the opinion of the Supreme Court," he said, "covered the whole ground of this act, it ought not to contest the co-ordinate authorities of this Government. The Congress, the Executive, and the court must each for itself be guided by its own opinions of the constitution. Each public officer, who takes an oath to support the constitution, swears that he will support it as he understands it, and not as it is understood by others."

That is, everyone in authority was to construe the law to suit his own desires, and enforce it or not as he liked. Relating to himself, it displayed the arbitrary will of a despot. How did the democrats of his day square it with their alleged principles?

The Message as a whole was so grotesque a paper, so ludicrous, even, to a mind of ordinary intelligence, that the Bank circulated 30,000 copies of it as a campaign document, the management believing that if the people read it themselves, instead of taking what the Jackson newspapers said about it, they would treat it with the scorn it deserved. But they were greatly mistaken. It was a forceful argument to the ignorant and prejudiced, and to those proud freemen who could see nothing objectionable in suspending the powers of the Constitution in favor of any public official who felt its inconvenience and who felt that a loan from a foreigner was robbery. Instead of turning popular sentiment in favor of the Bank, it lifted Jackson to the summit of his popularity.

The charter bill went again to the Senate, July 13. The vote was 22 to 19, failing of the constitutional majority. If the Bank was to survive, it was now necessary to defeat Jackson's re-election. Practically all of the local and State banks were actively aiding him. The important banks in New York were a strong political power under Van Buren's direction. All wanted a share of the Government deposits. They contributed to the Jackson campaign fund and used their influence in his behalf. While the Jackson men saw nothing but corruption in the United States Bank distributing pamphlets and subsidizing newspapers, we find no rebuke from him for the others. "They unquestionably measured by two standards, one for themselves and their allies, and the other for the Bank." (Sumner)

Jackson was re-elected and the Bank was doomed. Its charter would expire by limitation one year before the expiration of his second term, but he and his followers did not propose to let it run peacefully to its allotted end. In his annual Message, late in 1832, he as much as declared that the Bank was bankrupt. He said that the charges against it (invented by his coterie and shown by the investigation to have been nine-tenths false and frivolous) "may justly excite the apprehension that it is no longer a safe depository of the money of the people." He also advised the sale of the stock held by the Government. The malice, not to say dishonesty, of these utterances, which were no doubt directly

aimed at undermining public confidence in the institution, become more apparent when it is remembered that during the previous summer, the Secretary of the Treasury had appointed an agent to examine into the affairs of the Bank for the purpose of ascertaining whether it was a safe depository for the Government's funds. This agent was Henry Toland, a former director of the Bank, by appointment of the President, and a strict Jackson partisan. He was now engaged in business in the West, and was directed to investigate particularly as to the Bank's western loans and securities. Although a partisan, Toland was also a business man with a conscience, and after careful investigation he reported that the Bank was entirely solvent, and that its western debts were of a sound character.

Not having made good on a single count of the charges of violating its charter, and only partially so in two or three of the fourteen charges affecting the Bank's methods,—those mainly growing out of the unjust attacks upon it,—and having this report made by his special agent, the President still professed to fear for the safety of the Government's deposits. Nothing had been discovered by any one to warrant the charges, which, if they had been made by a private individual, would have subjected him to prosecution for libel.

In the business world, however, Jackson's infatuation was now so well understood that his last attack did not cause much consternation. Toland's

report no doubt helped to sustain public confidence in the Bank, which suffered little, and only in the way of slight runs on some of its southern branches.

The Committee on Ways and Means in the winter of 1832-'33, also instituted an investigation with respect to the President's charges; and in February, '33, Polk, acting on the advice in the President's recent Message, reported a bill from this Committee to sell the stock owned by the nation in the Bank; it was lost, 102 to 91. The report of this Committee is another of the great documents about the Bank. The majority (Verplanck's Report) declared the Bank sound and the deposits safe. It showed that on January 1, 1833, its assets were $80,800,000, liabilities $37,800,000, net $43,000,000, or a surplus of $8,000,000 over the capital of $35,000,000. Circulation $17,500,000, specie $9,000,000. The State banks were estimated to have $68,000,000 in circulation and $10,000,000 or $11,000,000 in specie. The minority report could only question whether the assets were all good: claiming also that they could not find out clearly about payment of the 3% bonds of the United States heretofore alluded to, but expressed a fear that the Bank had obtained a loan for that emergency in Europe. The majority said it had not, and that there was no more to argue about.

But a later report by the Polk contingency showed a weakness in some branches in the South caused by the so-called "race-horse" drafts, the short cotton crop, and the scare caused by the President. There

had been runs at Lexington and Nashville, and the Tennessee branches were found in the worst condition. But on the same day that this minority report was presented, the House adopted a resolution, 109 to 46, that the deposits might safely be continued in the Bank. Everybody now recognized that the attack on its solidity was purely a political partisanship matter.

It was soon after this that three of the Government directors of the Bank made a report to the President, complaining again that they were excluded from a knowledge of what was being done. They declared that under the power lodged in the Exchange Committee, the affairs of the Bank were being conducted in secret, and impliedly to nefarious ends. The Committee was blamed for making large loans to newspaper publishers as subsidy for supporting the Bank. This was a much discussed proposition. One newspaper turned against Jackson after establishing such relations with the Bank; yet administration publishers also borrowed from it. In fact all newspapers held that they should be paid for printing long documents not generally read by the people. Friendly Congressmen likewise, thought there was nothing wrong in the Bank disseminating at its charge their speeches in which the Bank was defended.

Catterall relates as an amusing instance the fact that John Tyler (whose financial honesty has not been a subject of question) "while voicing the austere

public morality of Virginia republicanism since the days of Jefferson," criticised the Bank for this; but when the report of his Committee came out, and Biddle asked him if he desired the Bank to circulate it, promptly requested him to mail a thousand copies to his constituents. Biddle is said to have been disgusted.

It is not desired to make this work appear as the defender of the Bank or of Nicholas Biddle, but it cannot be overlooked that the charges that Biddle was a wholesale briber of the newspaper press is not supported by adequate evidence. That is the opinion of those who have inquired most carefully into the matter. The record shows that he declined advances from publishers, and only cultivated them when he believed that it was vitally necessary for the Bank to reach the public with plain facts in opposition to the libels that were circulated against it. James Gordon Bennett, who opposed the Bank, intimated to Biddle that he needed money and was open to bargaining, and his overture was declined. Jackson complained that by resolution of the board, Biddle was authorized to dispense funds for such subsidizing without vouchers; that it was at the expense of the stockholders, including the Government. But which was the more culpable, for Biddle to buy space in a newspaper, or lend money on security to a publisher, to subserve the interests of the Bank, or for the President to subsidize newspapers to support his political interests, by giving the publishers positions on the Government payroll?

The total expenses of printing and publishing incurred by the Bank from 1829 to 1834, inclusive, was found to be $65,103, and the amount disbursed by Biddle without designating the purpose was $29,605. This was censured by the Senate Committee of 1834.

The same writer, who seems to have examined the subject with care and candor, repeats the assertion, that while the Bank lobbied on a wide scale in Washington, as it afterwards did at Harrisburg, it used no corrupt means, so far as evidence that can be found shows. However, it advanced money to Congressmen on their salaries and charged them no exchange on their drafts payable at far-away points. It loaned money to numbers of them, but it seems at regular rates and with the usual security. George McDuffie borrowed from it on a mortgage, this in 1833, two years after his report. The total loans to Congressmen that year was $374,766, to fifty-eight of them. They seemed to be good loans as a rule. The Tyler committee in 1834 found only $400 carried to suspense account, and one note for $500 protested. The charge was made that the Bank retained a lot of influential members as attorneys, Webster being among them, but the number did not appear as at all out of proportion to its extensive business, nor the fees excessive.

CHAPTER VI

WE have now arrived at another distinct stage of the Bank war. Who were the prime instigators of the desperate and useless enterprise of the removal from the Bank of the United States of the Government deposits? It seems to have been decided on soon after the coalition between the Bank and the National Republicans. The "kitchen cabinet" was no doubt the source of the inspiration. Amos Kendall, Isaac Hill, F. P. Blair, Duff Green—these all advocated it, while the cabinet proper, with the exception of Roger B. Taney, either opposed it as dangerous, needless, and contrary to good faith, or were non-committal.

Such serious results were apprehended by some that Jackson was constrained to think a while. He is said to have consulted Isaac Bronson, an old friend and an experienced banker, as to what might happen in case the act was accomplished. Bronson pointed out that the Bank would have to reduce its loans to the average amount of the Government deposits, since it could not otherwise meet the drafts without reducing its specie to the danger point; that if it so curtailed, the State banks would have to do

likewise, and the contraction would necessarily affect business conditions. It is certain, therefore, that Jackson had the forecast of an expert of what would follow.*

Kendall was consulted by the Secretary of the Treasury, McLane, who had espoused the cause of the Bank as an institution indispensable to the Government. Gallatin was fearful of the consequences. After the subject was agitated, J. A. Hamilton called a meeting of business men, in New York City, which expressed itself decidedly adverse to it. But Jackson never cared for expressions from business organizations unless it were in support of his political fortunes.

Woodbury in the Cabinet appeared neutral—probably lacked the moral courage to oppose what he knew to be wrong. Cass was more outspoken, and would not give his assent to the plan. Taney alone favored it, and became Jackson's chief adviser. Van Buren first opposed the scheme but afterwards yielded. Neither Benton nor Barry, nor Van Buren, was active in the matter. It no doubt grew out of the fear that another attempt for a renewal might be able to secure the necessary two-thirds majority, and he determined to prevent that being brought about. Even Polk, who complained that the investigations were incomplete, did not advocate the removal of the deposits.

McLane, refusing to obey the President's order,

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*Catterall, p. 291

was transferred to the State Department, and William J. Duane was appointed Secretary of the Treasury. Here we find the son of the slanderous editor of the old "Aurora" brought into the cabinet to aid in the vengeful scheme. But he proved to be much unlike his father. He was a lawyer, and had not been a politician or office holder. He was immediately instructed to remove the deposits and to make local banks Government depositories and fiscal agents. He refused. He said that the President was in the hands of men he would not trust personally or politically. Finding him unmanageable, it was then decided to drive him out. In his story of the case five years later he said, "I heard rumors of the existence of an influence at Washington unknown to the Constitution and to the country, and a conviction that they were well founded now became irresistible. I knew that four of the six members of the last Cabinet, and that four of the six members of the present Cabinet, opposed a removal of the deposits, and yet their exhortations were nullified by individuals whose intercourse with the President was clandestine....several of these individuals called on me and made many of the identical observations in the identical language used by himself....in short, I felt satisfied from all that I saw and heard, that factious and selfish views alone guided those who had influence with the Executive, and that the true welfare and honor of the country constituted no part of their project."

Jackson now commanded Duane, saying in a paper he read to the Cabinet, and which was prepared by Taney, that he alone assumed the responsibility, "after the most mature deliberation and reflection as necessary to preserve the morals of the people, the freedom of the press, and the purity of the elective franchise, without which all will unite in saying, that the blood and treasure expended by our forefathers in establishing our happy system of Government will have been vain and fruitless." The reader will recollect that no case involving anything of this kind had been proved against the Bank. He would not dictate to the Secretary, but he took all responsibility, deciding that after October 1, no more public money should be deposited in the Bank, and that current drafts should withdraw all public money then in it. The charter of the Bank gave the Secretary of the Treasury, not the President, authority to remove the deposits. Duane still refused to give the order, and also refused to resign. He was dismissed September 23.

In a letter a month after his dismissal Duane had this to say of the President: "It is but too obvious, that we misunderstood the qualities of General Jackson's head, or else he has been wonderfully altered. On all the cardinal questions agitated, he has failed to be consistent. He promised purity in selection for office, yet few have been purely made. He professed to be a friend to domestic industry, yet he has done more than anybody else to prostrate it.

He advocated a national government Bank, and yet affects to dread a moneyed aristocracy. He complained of the corruption of one Bank, and takes forty or fifty irresponsible, paper-circulating banks under national wing. He has been for and against internal improvement. He denounced nullification, yet has of late been unsaying all that he said in his proclamation (denouncing it). In short, I do not believe he ever had fixed principles, or ever arrived at any result by the exercise of his mind. Impulses and passions have ruled him."

All of which is not necessarily untrue or overdrawn because it was the utterance of a man with injured feelings.

An incident of peculiar interest occurred at this time. A large payment by France on the spoliation judgment falling due, the Government drew on France for the amount February 7, 1833. It was the first installment. The Bank accepted the draft as for a commercial debt at $961,240.30. But France had made no appropriation to meet it, and it was protested and taken up by Hottinguer for the Bank. The Bank had put the money to the credit of the Treasury, and claimed that it had actually been drawn. Hence it declared it was out of funds for twice the amount of the bill, and demanded 15% damages under an old law of Maryland, still applying to the District of Columbia. After a time the Treasury repaid the purchase money, and offered to pay actual damages, but no more. Biddle informed the

Secretary of the Treasury, July 8, that the sum of \$170,041 would be retained out of a 3½% dividend, payable July 17, on stock owned by the United States. It was a wrong-headed act, and not approved even by many of the Bank's friends. In March, 1838, the Government brought suit to recover in the Circuit Court of Pennsylvania. It got judgment for \$251,243.54. The Bank appealed to the Supreme Court, which in 1844, reversed the judgment, finding that the Bank was the true holder of the bill and entitled to damages. On a new trial the Circuit Court gave judgment for the Bank. The United States then appealed on the high ground that a bill drawn by a Government on a Government was not subject to the law merchant. The Supreme Court sustained this view in 1847, and again reversed the decision of the Circuit Court. No further action was taken; but it left an unfavorable impression at the time of the first dispute.

Taney was transferred to the Treasury Department, and gave the order for the suspension and removal of the deposits. This was September 26, 1833. It is said that no political act, prior to the Civil War, caused such excitement throughout the country, but the later historians express the opinion that its importance was exaggerated in the financial world. No rational explanation has been given why the act should have caused so much commotion and disaster. The results were peculiar in that the order did not immediately harm the Bank. Its stock fell

only two points, and when the contents of the President's paper, read to the Cabinet, were published, it recovered, there appearing no new charges. There was at the time much currency given the report that some of the anti-Bank clique had sold shares short, in anticipation of a big drop, and that they were greatly disappointed. It should be noted that the deposits were not removed all at once, but only as disbursements were made, Government receipts in the meantime going to the new depositories.

The administration, it seems, first planned to withdraw its balance in a summary manner, as it was on demand, and took credit to itself for its moderation. At the time there was high financial prosperity, and only a tremor was felt where there otherwise would no doubt have been a rude shock. The Bank had prudently prepared for the ordeal, and met all demands, a slight run that started soon ending. If it were a shell, and unsafe, according to thePresident's assertion, it ought now to crumble. Because it did not do so, its enemies used the fact to prove their contention, that it was a menace in its great power. Kendall showed a disposition the most discreditable, fairly gloating over the ruin they might have caused by a total withdrawal at once, "as if," says Schouler, "the loss to private depositors, among whom were widows and orphans, the ruin of confiding stockholders, the loss of twenty millions or more of notes, circulating at this time as the soundest currency in the land; as if the shock and sudden paralysis at all

the nerve centres of trade would be a spectacle for any but demons to rejoice in."

This act was without excuse, and merely in line with a bigoted, destructive policy. The Bank had paid a bonus to get the public deposits. The Government, although it had authority by the charter to remove its funds, yet was not presumed to do so without legitimate cause. After effecting the removal, Blair and his newspaper and other adherents of the President continued their efforts to start a run on the Bank, and contributed to the feeling of insecurity, that soon culminated in a panic.

All during 1833, the Bank sought to retrench, orders being given to restrict discounts and to cut off extensions. There was a feeling of unrest and uncertainty throughout the mercantile community, the threat of the removal of deposits from the Bank having seriously affected the money market. When the Bank tightened up as the clouds began to gather, it was accused by the political vandals of causing the stringency, merely to show its power. The business community was frightened at the recklessness of the administration, and, as has been said, was fearful of the result of Jackson and his tricky abettors, such as Amos Kendall, Isaac Hill, Reuben Whitney and others of the "cabinet improper," as Webster termed it, seizing the Government funds and distributing them around to favorite State banks—if it were not "robbing the Treasury larder for his kitchen rats." The average monthly balance in the Bank credited to

the Treasury from 1818 to 1833, was $6,700,000. In 1832 it was $11,300,000, and in 1833, $8,500,000. In September, 1833, the amount was $9,100,000, and January 1, following, only $850,000, which was not entirely paid out till late in 1835. A recollection of the evils that accumulated after the expiration of the first Bank, and a fear of a repetition, worked as a blight on confidence. Horace Binney expressed it thus:

"It is here we find that pregnant source of the present agony—it is the clearly avowed design to bring a second time upon this land the curse of an unregulated, uncontrolled State bank paper currency. We are again to see the drama which, already in the course of the present century, has passed before us, and closed in ruin. If the project shall be successful, we are again to see these paper missiles shooting in every direction through the country—a derangement of values—a depreciated circulation—a suspension of specie payments,—then a further extension of the same detestable paper, with failures of trade and failures of banks in its train—to arrive at last at the same point from which we departed in 1817."

Kendall, then Fourth Auditor of the Treasury, was commissioned to visit local banks and effect arrangements for their receiving the Government deposits. The contract which he presented provided that each bank should receive all deposits offered it by the Treasury, whether in coin, notes of the Bank of the United States or its branches, notes of any neighbor-

ing bank convertible into coin, or notes of any bank which the depository bank was in the habit of receiving. If deposits exceeded one-half of the capital of the bank, or if for any other reason the Secretary thought necessary, the bank was to give collateral security for the deposits. Weekly reports were to be made to the Secretary of the Treasury. Transfers of deposits were to be made without charges, and the banks were to furnish the Secretary with exchange on London at the current price. The Secretary reserved power to discharge the bank at his own discretion. Twenty-three of these, selected by Kendall, finally were chosen, one rejected.

It was feared by Taney that the Bank would attempt to retaliate on the chosen banks by calling their bills, and he placed large drafts, amounting in all to $1,500,000, on the big Bank in the hands of the new depositories at New York, Philadelphia and Baltimore, to offset if found necessary, but otherwise as he is understood to have ordered, not to be used. The National Bank took no steps which offered even a pretext for the use of these drafts; but the president of the Union Bank of Maryland cashed one of them for $100,000 a few days after it came to him and used the proceeds in stock speculation. It is illustrative of the conditions, moral and political, then existing that under orders of the Executive, this scandal was for the time covered up, but it finally came out, and was the subject of an investigation by Congress. Taney was a stockholder in this bank. The Man-

hattan Company, New York, also cashed one of these emergency drafts, this one for $500,000. The "pet banks" evidently felt that they were at last to have their innings—a fine proof at the start of their alleged greater trustworthiness! (Sumner.)

Taney's wicked intent which prompted the placing of these heavy drafts is shown in the fact that the Bank was not advised about them. Before this it had been furnished with a weekly list of Treasury drafts, and also a daily list of all warrants out. The drafts were all cashed but one, Biddle, after he learned about them, insisting that the one held in the Girard bank, being for $500,000, should be paid, for fear it might turn up at one of the remote branches. Miles is quoted as authority that the supporters of Jackson, in their efforts to cripple the Bank advised the collection and presentation for payment in coin of the notes of the Bank in large amounts.

Kendall's mission to the local banks did not prove as satisfactory as the removal advocates hoped,—indeed it was considered by Duane as a failure. And if the Treasury had rigorously insisted on a compliance with the requirements, it is hardly likely that the transfer could have been accomplished. But, as will appear, the Treasury, under the inspiration of the President, practised great leniency toward its new depositories.

As a reward for his usefulness in capacities requiring an easy conscience, Reuben Whitney was now given the post of Agent for the new depositories in

their dealings with the Treasury. Of course, they soon complained of his methods, but he continued to 1837, when an investigation exposed him as a disreputable. From correspondence between him and the banks, then published, it is plain that the chief requirement of an applicant for deposits, or other favors, was political support of the Jackson administration, and enmity to the United States Bank. Truly additional testimony to the sincerity of that Administration in its oft-expressed desire to maintain political purity!

After Jackson's re-election, he could logically claim that the people were with him in his war on the Bank, and that it was plain they did not want it re-chartered. He had received the support of the unreasoning class, which was naturally prejudiced, and which was pleased with Jackson's spectacular fight; the support of the local bank interests, and of the large class that had no interests. None of these had considered the probable cost. So long as the demon of "monopoly" was being strangled perhaps they did not care what the consequence might be. The question of the errors and transgressions of the Bank, such as they were, did not play much of a part—it would have been the same if the Bank had been faultless in all things. Its crime lay in its very nature.

The Bank did not let Jackson's defamatory paper of September 18, 1833, pass unanswered. The directors some time later issued a report replying to

his accusations point by point. As for the charges of corrupting Congressmen and newspapers, which had been made on information from some of the Government directors, an apparently candid acknowledgement was made of such expenditures as the Bank had incurred in its self defense, and the amount was given at $58,000. This figure was questionable, and of course depended on what items it was made to include; but up to this time it is not likely that such expenditures had affected its soundness.

The Congressional session of 1833-34 was a seething one. The Senate refused, 25 to 20, to consent to the appointment of the Government directors, who had acted in the supposed capacity of Presidential spies. Jackson sent in their names again with a characteristic scolding Message—the Senate rejected them again, 30 to 11. Taney's appointment as Secretary of the Treasury was rejected. He was then nominated for the Supreme Court, and that was rejected. Jackson sent in a Message complaining that the Bank retained possession of the books, papers and funds of the Pension agency. The Senate voted, 26 to 17, that the Secretary of War had no authority to remove the pension funds from the Bank. This had previously been clearly shown, and Jackson's action indicates that he had an idea that he could assume authority to suspend or change statutes at will—which should cause little wonder when he claimed similar power over the Constitution.

In December, Clay got a resolution adopted calling

for the paper which Jackson read to his Cabinet taking on himself the responsibility for the deposit removals. The President refused, with the statement that he had yet to learn that Congress had any authority over communications made by the Executive to the Cabinet. Clay then introduced a resolution which finally took this form: "Resolved—First, that the President in the late Executive proceedings in relation to the public revenue has assumed upon himself authority and power not conferred by the Constitution and the laws, but in derogation of both. Second—that the reasons assigned by the Secretary for the removal of the deposits are unsatisfactory and insufficient." Webster reported this resolution from the Committee on Finance and it was adopted, the second section first, 28 to 18, and later the first section, 26 to 20.

Of course this censure could not pass without a counter from the President's friends, and Benton offered a resolution that Biddle should be called to the bar of the Senate to give reasons for the recent curtailments of the Bank's loans and for using its funds in the election. It was not passed. The President's wrath was now mingled with a feeling that his honor had been wounded. It was no trifling matter to have such a censure stand on the records of the Senate. He replied to it with an earnest protest, declaring the act was an invasion of Executive rights; but the Senate refused to receive the protest, 27 to 16; answering that it was a breach of privilege.

Benton soon offered a resolution to expunge the resolution of censure from the records of the Senate, and this started a struggle with which the country was agitated for two years. A regular campaign was organized in support of Benton's resolution, joined in by all of the Jackson party and press. In 1836, the personnel of the Senate had changed to the extent of placing Jackson's adherents in control, and the resolution was expunged with melodramatic ceremonies. But before this, the fight was so vindictive as in some places to appear humorous. A rumor circulated that Jackson would issue a proclamation against the Senate and make a call for troops; while McDuffie took it seriously enough to declare that 200,000 men would rally to its defense.

In the House, Polk reported from the Committee of Ways and Means, March 4, 1834, supporting the President and Secretary of the Treasury in all their actions concerning the deposits. He offered four resolutions, all passed April 4,—first, that the Bank ought not to be re-chartered, 132 to 82; second, that the deposits ought not to be restored, 118 to 103; third, that State banks ought to be the depositories of the public funds, 117 to 105; fourth, that a select committee should be raised on the Bank and the commercial crisis, 171 to 42. This committee of seven members was appointed and endowed with inquisitorial powers, which J. Q. Adams characterized as unjust and un-American. One could have foretold that the Bank would treat such a committee, under the circumstan-

ces, cavalierly. It drew a line beyond which it would not divulge the business of the Bank, and the committee stretched the truth by reporting back, that it had resisted all their attempts to investigate. The majority was for having the directors arrested and brought to the bar of the House. The minority justified the Bank in its position and criticised the line of examination that had been attempted, which was to find something to support charges made at random, rather than to discover and report the facts. The committee had objected to having the Bank officers present, intending to make a secret examination, not only of books and papers, but of employes. Being denied this opportunity, the committee took a room at a hotel and ordered the books and documents of the Bank brought there. This was impracticable, and the request was refused. Biddle offered to submit to an investigation as to whether the Bank had violated its charter, and claimed the committee had no authority to go further.

And yet another investigation. June 30, the Senate instructed its Committee on Finance to investigate all the allegations made by Jackson and Taney in justification of the deposit removals. It was regarded as a friendly committee, and there was no clash with the managing committee of the Bank, as there had been when Mr. Polk's inquisitive seven looked in. In fact it appears that the courtly senators were permitted to do as much searching and quizzing as they pleased. There was talk, before

and after this time, of certain senators being retained by the Bank, and of others having intimate business relations there; and it is not improbable that some of the members of these various investigating committees were influenced by such relations. But it must be considered, that there were the most hostile spirits on those committees also, and that they were not forcibly blindfolded. In this last senatorial probe it is not at all warrantable to assume that all those who assisted in it were corrupted. John Tyler was at the head of it, and he was not an enthusiastic Bank partisan; on the contrary, he was opposed to the recharter, but he believed the institution, because of the vast interests involved in it, should be treated reasonably.

The committee reported December 18, 1834. Its production, known as "Tyler's report," is of more importance than most of those resulting from other investigations. It dealt with the historical facts in a manner that it seems should have caused the Bank wreckers to pause and ponder. But it was little heeded. It found for the Bank in practically all of its conclusions, having failed, as all its predecessors had, to discover any evidence of real violations of its charter. It dealt particularly with the then general cry that it was producing financial distress wilfully by unnecessary contractions. It had drawn back from the perilous position in which the operation of the branch drafts placed it in 1832, and had improved its condition, which by its October, 1833, statement was strong.

Not the least malevolent of the President's accusations had been this one of causing needless distress by its retrenchments. It will not be forgotten that he had a short time before charged it with recklessness and insolvency. Yet now that it was drawing in, under the pressure that the Administration policy had brought on, he writes: "By a curtailment of its accommodations more rapid than any emergency requires, and even while it retains specie to an almost unprecedented amount in its vaults, it is attempting to produce great embarrassment in one portion of the community; while through presses known to have been sustained by its money, it attempts by unfounded alarms to create a panic in all."

Is not this testimony that the Bank was sound, "with specie to almost an unprecedented amount in its vaults"? And as if this were not brazen enough, he proceeds to declare there is no financial panic despite the efforts of the Bank to cause one. It seems incredible that a President of the United States could so completely have discredited his own utterances and so have exposed the impure motives that actuated him, as Jackson did repeatedly in his conduct toward the Bank, and have retained the respect and support of any intelligent, honest person. It can be accounted for only by the recollection that he had a majority of the newspapers in line, either through real gratitude or from "a lively sense of favors yet to come"; that he had used the Govern-

ment patronage in every direction and to the fullest extent; that the great majority of the people got, or wanted to get, only one side of the story, and that blind prejudice swayed men at that time to an almost unbelievable degree.

If there was no panic brewing, how was it that the Secretary of the Treasury experienced so much difficulty in getting local banks to qualify for receiving the public funds?—as he did from the beginning of the transfers. Jackson had asserted, in the face of the record of losses by the Government through numerous failures of such depositories, that State banks of undoubted strength would as readily perform all financial functions for the Government as the Bank of the United States. To be sure, Benton offered a luminous explanation of their backwardness. It was that the local banks were now loath to receive Government deposits out of fear that Biddle's Bank would turn and destroy them—a hint of their relative strength not in keeping with the other assertion. And there is no indication that Benton intended it as a joke.

One realizes the impudence of the claim that the deposits with the local banks was intended for the public weal, only by remembering the conditions that existed before the Bank was organized, and the necessities that impelled its charter by the Government,—conditions which every prudent, unbiased man feared would be repeated if the Bank should be forced out of existence. It cannot be assumed that

Jackson or his advisers supposed the local banks would be as safe—they had the record of losses which the Government had sustained through them. McGregor, British statistician, says that "from 1811 to 1830, no less than 165 banks, with a total capital of $30,000,000, either failed or discontinued their business. The Treasury had about $1,400,000 in them, a large part of which it lost." This loss accrued when, from 1816, deposits in those banks were only at points where the National Bank did not have branches,—a small fraction of the whole.

A report of February 12, 1821, showed that the Treasury had $818,590 in suspended banks; and we have Sumner as authority for the statement that the Government lost before 1837 in bank notes received (notes of banks that failed to pay) $5,500,000; and by deposits in such banks, $900,000. What can be said for the sincerity of any man seeking to entrust all the public funds to them?—or for the sincerity of the men who, with this record against the admirable one of the National Bank during the past ten or a dozen years, professed to believe they were the safer?

The ultimate loss was even greater. Schouler, in his vivid style, says that (in the panic of 1836-37) "the trap of suspension sprang upon nine millions or more of government funds, which were divided among the banks of twenty-six independent jurisdictions; or rather the public revenue to that amount had already sunk through these bottomless coffers

into the common bog of speculation. The statistics of this loss were highly discreditable to the government, indicating gross favoritism; for while our Treasury had already drained out nearly all the public deposits in New England and New York banks, the remote and less responsible custodians of the southwest had been left with large funds not drawn upon. A Mobile bank led the list with over a million dollars in default to the government, and three banks of Mississippi and Louisiana stood next, each owing eight hundred thousand. . . . . By the time these pet banks had completely suspended the general government was in great distress."

CHAPTER VII

IF there was anybody connected with the Treasury Department at that time who possessed a modicum of ability as a financier, he not only knew what caused the panic of 1833-34, when it came, but he could, if he had cared to take the risk, have foretold, as Banker Bronson did, about what would happen.

State banks everywhere had begun, from the moment Jackson's order for the removal of the deposits had been made, to train for the competition for them. As has been said, it was not considered necessary for "specie banks" to carry any considerable stock of specie. But now under the requirements precedent to administration favors they began trying to strengthen themselves to the Treasury standard. It was they who began the operation of bank contraction—naturally enough. This started more than a year before the new system began to operate in place of the old. In the process of realization, stocks fell 20 to 50 per cent. In February, 1834, sterling exchange was down to 98, par being 108. And just as naturally, when the United States Bank was hit by the order, it began to trim sail. Borrowers found it harder to collect because every-

body scented trouble, and as always, under such circumstances, wanted to keep his money. Credit contraction ensued through all mercantile avenues. This resulted as usual in a sharp shrinkage in prices and a great sacrifice to effect sales. Commercial paper rose to 2 or 3 per cent a month; securities shriveled in price in keeping with other things, and this more than other causes, started failures among the local banks. In New York, the State loaned its stock to local banks to ward off a suspension of specie payments.

The Jackson adherents continued their usual process of reasoning, by saying that Biddle was causing all the trouble in order to force a renewal of the charter; and it may be observed now that when, a few months later, the Bank did all it could do in the way of discounts and accommodations to relieve the distress, Biddle was as severely blamed by these same illogical critics for contributing to the speculation and expansion that followed a year or two later. The statements of the Bank showing a sound condition through it all, were pointed to as a proof of panic-making on its part. In eighteen months, from January, 1831, to July, 1832, when it was working hardest for a renewal, its loans increased $23,400,000. That was an evidence of merely seeking popularity. Incidentally it could be observed that then "times were good," business was active; the notes of the Bank were considered as good as gold, failures were few, and there was no reason for

any one to be discontented over economic conditions. In the next eighteen months the Bank's loans were reduced $21,900,000, considerably less than the increase noted, yet it was declared to be out of revenge. Then in the next six months its loans increased $19,600,000. This does not make good evidence for those who censured the Bank for unnecessary severity. Those who have examined the statements far back find that there had previously been similar fluctuations. (Sumner.)

It is unnecessary to dwell voluminously on the nature and extent of this panic of 1833-34, which can be rationally attributed to nothing but the war waged successfully by the administration against the Bank. Full and lively accounts of it are given in the general histories. A great many, no doubt, were much worse frightened than hurt, but at the best it was bad enough. Jackson was soon bombarded from all sides with calls for relief. Immense petitions were sent from New York, and hundreds of other places, to Congress; large delegations of business men went to Washington representing business interests irrespective of parties. They presented their urgent petitions to Congress, and then went to call on the President, urging him to replace the deposits in the National Bank—even local banks made the same plea. He received them like a mad czar—told them to go to the "monster," to Biddle—that Biddle had all the money, and anyway, those who traded on credit ought to break!

It may be unfair to quote statements made in anger, but these are, nevertheless, indicative of the President's economic notions. He said Biddle had millions of specie in his vaults "lying idle." On February 11, 1834, in answer to a delegation from Philadelphia, he proposed the so-called "hard money" panacea, and from his talk he would have liked to experiment in inducing banks to raise themselves up to a specie plane where they would issue no notes under $20, thus forcing coin out for a large part of the circulation. A good deal was said about this, and a number of other schemes, wise and otherwise, were brought forward. Sumner differentiates them into four distinct schools—the national bank system, the local deposit bank system, an inconvertible treasury note system, and the bullion plan of Benton and Jackson. But none of these worked any relief for the present. Failures continued, and great meetings were held in the large cities, attended by business men, mechanics, and laborers. At some of these, divisions were made by occupations, each getting up a petition and going on to Washington on its own account. There were tens of thousands out of employment, and during the winter a great deal of suffering resulted. The Virginia legislature passed resolutions censuring the President for his rash act. Some of the resolutions to Congress prayed to have the Bank rechartered. A count was made of the petitioners, and 151,000 were found in favor of restoring the deposits, to 17,000 who were not.

If the panic was severe, it was not as bad as some others have been, because it did not last as long. The curtailment of 1833-34, acted as a purging that made the patient sick for a brief spell and left him greatly improved. Most, if not all, of the banks were pursuing a cautious course, the larger ones importing silver, and the ratio of circulating paper to specie decreased. It seems as if the condition thus brought about ought to have been more enduring. But in a year or so, finding that affairs were in good condition again, speculation rapidly increased. This was enhanced by the transfer of deposits to the local banks which sought to use them at the largest profit; while the number of local banks were greatly increased, the possibility of securing Government funds being an incentive. This immediately tended to inflation. And so after a brief joy of recovery, things immediately set in the wrong direction again, and kept on that way until they culminated in the larger panic of 1836-37; in fact, the financial disturbance beginning with Jackson's removal order ran through a course, with short periods of respite, of nearly ten years.

There was, as indicated, considerable change of opinion during the first part of the panic, and if an election were to have occurred now it is altogether probable that Jackson and his policy of saving the people from mammon and monopoly would have been repudiated. Jackson's friends even advised him to recede; Kendall says, that at one time it looked as

if they would not be able to resist the pressure brought against them in favor of the Bank. But Jackson was true to his record—the fight was not yet finished, and he had no idea of retreating; and his doggedness was rewarded by seeing the Bank incur disfavor by its own imprudent acts. He was greatly agitated by the first move made by the Legislature of Pennsylvania, toward securing the Bank as an institution of that State. December 20, 1833, the House of Representatives, by a resolution directed its Ways and Means Committee "to inquire how far the public interests might be promoted by the continuation of the operations of the Bank of the United States under a charter from this Commonwealth, should its present charter not be renewed by the United States." The committee did not report very favorably, believing that under such an arrangement it would run down to a level of other State institutions, and so would not regulate the local banks.

March 18, 1834, Webster proposed a bill providing for a new government charter for six years, with a bonus to the government of $200,000 a year, the Bank to issue no bills for less than $20. The Bank men would not support it. Both Taney and Woodbury wrote papers giving vague outlines for a new bank system, but nothing definite was done with them; and it is reported that the President made an attempt to put his propositions into concrete shape, but that the result was so queer that even the

"kitchen cabinet" did not approve it, and it never left his desk. It may be said here that it was not till 1836 that the deposit system was regulated by law, and that the deposit banks treated most of the regulations with indifference without experiencing much trouble from Congress.

It is probable that none of the President's other charges against the Bank finally came to be credited by the business community—the men who borrowed and traded—to the extent that this one of unnecessary curtailment of loans did. It was not believed at first. There was no ground for it. Intelligent men foresaw what the result of the destructive policy, particularly that of deposit transfers, would be; but they also discerned, after the panic had lasted for several months, that the Bank was not making the effort to relieve the distress which they believed it could, and ought to make.

There was another element that had its effect—the new tariff law, with its new system of paying duties. Heretofore the importers had been given six months time to meet duty payments, but now they had to pay at once. This occasioned an increased demand for money, just when it could hardly be obtained at all. The Bank had, under the first pressure of the panic, acted only prudently, and cannot be censured for regarding its own safety as paramount. And in considering its policy, it must not be overlooked that, while the Government funds had been taken from it, the hostility of the

administration had in no measure abated. The President was in a rage over being defeated in his illegal attempt to take the pension funds from the Bank, and to stop it from exercising its legal functions in relation thereto. During the contention the payment of certain pensions was delayed, and Jackson managed to make the Bank bear the blame, although it had acted in the right. It still hoped for a re-charter. And no doubt Biddle believed that if the agony continued till Congress met in the fall of 1834, it would listen to the plea, or at least restore to it the Government deposits.

Under these circumstances it is not unlikely that, being in the situation of a badly abused institution, it would make no effort to relieve the distress that was likely to result in this victory. It seems to have been at this point that Biddle made his worst mistakes. It no doubt would have been better policy, so far as public sentiment went, to have given up the pension funds. He and the directors cannot be blamed for a feeling of anger and vindictiveness for the imposition they had suffered, nor for some indifference to the public that had so ignorantly applauded the President; but they went too far, and although the Bank ceased its contraction of discounts in July, and loaned again with liberality, it had incurred a lack of confidence which it never regained. And politically, the Bank's cause was unskilfully managed from 1832 to 1834.

It was November 5, 1834, when Woodbury, now

at the head of the Treasury, informed the Bank that the Treasury would not, after January 1, 1835, receive its branch drafts. It was in vain that Biddle protested, claiming that they were a good medium, both legally and in practical finance. In his Message of 1834, the President kept up his scolding, repeated many of his old complaints; recommended that the Bank's notes be no longer received by the Treasury, and that the stock owned by the nation should be sold. In January following, Polk introduced a bill to forbid receipt of the notes of the Bank unless it would at once pay the dividend withheld from the Government in 1833, in the matter of the French draft. No action was taken.

The severest arraignment that Jackson received for his wretched policy toward the Bank and his readiness to sacrifice the Government's interests in its overthrow, was Clay's speech in the Senate, in which he summed up the case, as for the Government, as follows:

1. He withdraws the public moneys from where, by his own deliberate admission, they were perfectly safe, in a Bank of $35,000,000 of capital and $10,000,000 of specie, and places them at great hazard with banks of comparatively small capital and but little specie.

2. He withdraws them from a Bank created by, and over which the Federal Government had ample control; and puts them in other banks, created by different governments, and over which it has no control.

3. He withdraws them from a Bank in which the American people, as a stockholder, were drawing their fair proportion of interest accruing on loans, of which these deposits formed the basis; and puts them where the people of the United States draw no interest.

4. From a Bank which has paid a bonus of a million and a half, and which the people of the United States may now be liable to refund; and puts them in banks which have paid to the American people no bonus.

5. Depreciates the value of stock in a Bank where the general Government holds $7,000,000; and advances that of banks in whose stock it does not hold a dollar, and whose aggregate capital does not, probably, much exceed that very $7,000,000.

6. And finally he dismisses a Bank whose paper circulates, in the greatest credit, throughout the Union and in foreign countries, and engages in the public service banks whose paper has but a limited and local circulation in their immediate vicinities.

All this without taking into account the great ruin that was brought by it upon the people, the bankruptcies, the miseries of the unemployed through the panic, and the unsettled state of business for years. It is a criticism on Clay's speech, that he indulged in too much invective, calling upon the people to tremble at the usurpation of a tyrant, and drew it so strong that the effect of the solid part of his indictment was weakened. Besides, everybody

knew that he was animated largely by political disappointment. But there was no answer to be made to his counts showing how the Government and people had been worsted in order to make Jackson's triumph.

In his Message for 1835, Jackson again rambled from the path of truth and dignity and further exposed his malice by declaring that the Bank had waged war on the Government for four years, and that it was part of the system of distrust of the "popular will" and of a power which sought to supplant the Federal system with a consolidated government. But as a matter of fact none but the ignorant now regarded his raging at the Bank as anything more than the angry diatribe of a malignant old partisan. But the action of Congress, June 15, of this year, was of more importance, as it repealed the fourteenth section of the old charter making the notes of the Bank receivable at the Treasury—an act which could not but detract in some degree, from the prestige of the Bank's circulation.

At the session 1835-36, an act was also passed for regulating the local banks of deposit, and the distribution of surplus funds to the States. The latter were to be as deposits subject to call, to avoid consititutional impediments. Jackson did not veto this because of doubtful constitutionality. If the public deposits in any bank ever exceeded one-fourth of its capital, it was to pay 2 per cent on the excess and to give collateral security for deposits,

if the Secretary of the Treasury should call for it. The surplus money in the treasury, January 1, 1837, amounted to over $5,000,000, and this was to be deposited between the States in proportion to their membership in the Electoral College, the States to give negotiable receipts, payable to the Secretary or his assigns on demand. This had to be withdrawn from banks that had it loaned, and paid over to others within one year. The curtailment which this necessitated helped to bring about the panic of 1836-37. There was a very eager competition between the States, and the Secretary complained of much importuning from Congressmen seeking favors for their banks. All told, he redistributed over $60,000,000, and in his system of equalization withdrew $18,000,000 from banks where States had more than their proper share. The folly of this distribution of public funds on a political basis, without regard to the commercial necessities of the various districts, could not but have its ill effect, and was criticized by Biddle as an ignorant blunder; but it was popular—it pleased the people. According to the economic theories governing the Administration, it ought to have resulted in nothing but good.

The Bank was now proceeding to wind up its business. Fifteen of the branches had been sold. There was no talk of it getting a charter from Pennsylvania heard till late in 1835. In January, 1836, two members of the Legislature sent Biddle a letter asking him what would be the main features of a

charter which would be satisfactory to him. Neither the State, nor Philadelphia, wanted to lose the "monster" bank. There was great rivalry between Philadelphia and New York, and already talk was heard of a $50,000,000 bank at the latter place. Even after the fate of the United States Bank had been sealed, New York twice called on it for emergency help—in December, 1835, after a great fire, and in May, 1836, during the financial stringency. The Bank advanced $2,000,000 to the New York insurance companies to settle fire losses, which they probably could not have obtained elsewhere.

Terms having been agreed upon, the Pennsylvania Legislature passed the act, February 18, 1836, giving the Bank a charter under that State. It was a combination act, containing besides the charter provisions, tax remission clauses and provisions for public improvements. It was a common thing in practically all the States to mulct the banks for public improvements, or education or charitable enterprises, although it was regarded as a bonus exacted. That there were private interests being served all along, which assisted greatly in having the charter granted, was well known, but it was a form of "corruption of the people," which did not seem to trouble the occupant of the White House—when any but the national Bank was concerned.

The new charter was for thirty years, under the style of the United States Bank of Pennsylvania. Under its terms it was to pay a bonus of $2,500,000,

pay $100,000 a year for twenty years for schools, should grant the State not over $1,000,000 in temporary loans at 4 per cent, and $6,000,000 on State bonds payable in 1860, at 4 per cent; should subscribe $640,000 to railroads and turnpikes, and should issue no notes smaller than $10. It is interesting to note that by this act personal taxes were repealed, the Bank money being counted upon in their stead; and $1,368,147 was apportioned out of the bonus for various canals and turnpikes. The vote in the Senate was 19 to 12, in the House 57 to 30. The Whigs had a majority of 44 in the House, the Democrats, 5 in the Senate. Charges of bribery were immediately heard, under the assumption that the Democrats could not otherwise have been induced to give a majority vote. A member of the House who made such an accusation was after an investigation called to the bar of the House and reprimanded for "talking to mislead public sentiment at the expense of the character and reputation of the Legislature and Commonwealth."

Another investigation was ordered at the next session of the Legislature, but nothing very discreditable was discovered. Most people believed the State had made a good bargain, and that the Bank was paying liberally for its charter. The shareholders were also satisfied, the charter being accepted two days after its passage, and the stock went up to 126. Biddle declared at this time that the surplus of the Bank was sufficient to pay all the

sums which the charter imposed on it. All the assets of the old Bank were turned over to the new one, March 2, 1836, under condition that the latter should assume all obligations existing. Biddle's salary was fixed at $8,000 per year, a rather astonishing figure compared with salaries paid to bank presidents in these days. The new corporation became trustee for the old, and Mathew Bevan now became president of the latter.

June 23, 1836, Congress authorized the Secretary of the Treasury, to negotiate with the Bank for the payment of the $7,000,000 of stock held by the Government, but no agreement was reached. Early in the following year the Bank sent a voluminous memorial to the speaker of the House, submitting an offer to liquidate the Government shares at $115.58, for each $100; payments to be in four installments, September 1837, 1838, 1839, 1840. The offer was accepted and payments were made accordingly. At the same time the Bank sold new shares in England at 25 pounds sterling, and thus made a gain by the transaction. The Government made another effort to collect the dividends withheld because of the French draft, but did not succeed. All this indicates that at this time the Bank was in sound condition. It had a comfortable surplus, although it had experienced an appreciable lowering of its prestige by its change to a State bank, as well as by the stormy incidents of the panic. Under the new charter it had 3,417 stockholders. In Pennsyl-

vania there were 590, other United States citizens 2,267, and foreigners 560. The latter had $9,100,000, out of the $28,000,000 paid capital. There was, however, a weak spot in its condition. In March, 1836, the loans made by the Exchange Committee to the officers of the bank and to the favored circle connected with it amounted to $6,200,000. The same date one year later these loans reached $8,100,000. In the list of bills receivable, January 1, 1837, it appears that twenty-one individuals, firms, and corporations, each owed $100,000 or upwards, although this does not necessarily indicate unusual danger of loss.

The National Bank established twenty-six branches, although it operated only twenty-five at any one time. Sixty-three applications for branches were refused during its career. The branch presidents were selected from among the local directors. The assistant cashier usually came from the head office.

As to the local banks, which had received the Government deposits, there were by June 1, 1836, eighty of them, and the amount of money they held was steadily increasing. Their combined capital was $46,400,000, loans $71,200,000, domestic exchange $41,000,000, private deposits $16,000,000, specie $10,400,000, circulation $27,900,000. The total specie of the country was estimated at $64,000-000, only a small fraction of which appears to have been in the vaults of the pet banks.

This shows at a glance the nature of the "mono-

poly" which the Bank of the United States exercised. There were at this time some six hundred or more of these local banks. Yet no charge had greater force with the people than that it was a monopolizer. This was only true in the sense that it was the only National Bank. Its interest rate was restricted to six per cent, while the competing banks could charge a higher rate; the legal rate in New York being seven per cent, and the market rate throughout the country was much of the time as high as twelve per cent. The effect of the big Bank was, of course, to make money cheaper to the people who accused it of being their oppressor.

Out of the mass of details which it is necessary to peruse to acquire a clear understanding of the functions, services, and conduct of this Bank, there are a few facts which it is of the highest importance to bear in mind. The Bank, during nearly the whole of its existence, was the specie reserve maintainer of the country. The other banks practically unloaded specie responsibility upon it, and in stringent times depended on it for unusual demands for coin, and to preserve specie payments. Its gold and silver reserve—not nominal but actual—was always much greater in proportion to its circulation than that of any other bank, being fixed in practice at one-third of its circulation, but much of the time it was in excess of this. In 1833, when Jackson was proclaiming it unsafe and transferring the Government funds to local banks, it had in circulation $17,000,000,

and specie $9,000,000, while all other banks had $68,000,000 of notes out to $10,000,000—$11,000,-000 coin in vaults,—this according to the Verplanck report in the House Record.

Much the same relative conditions existed as to loans in proportion to capital, and to specie as well. The largest volume of discounts the Bank ever had at one time was $70,000,000, or twice its capital, not counting several millions of surplus; and for this it was censured; while other banks constantly carried a larger proportion. At that time the New York banks averaged two-and-a-half times their capital. It was under bond, as has been stated, to maintain specie payments, being subject by its charter terms to a penalty of twelve per cent per annum on all notes and deposits not redeemed in specie on demand. This responsibility resting on the "monster" seems not to have been understood by the public generally. The great lack of unity between it and the State concerns—this being the real weakness of the system—often resulted in a forgetfulness of their mutual interests; and the inconsistency of the people, as has been observed, led them to blame the big Bank for not lending more freely in times of stringency. It was most of the time the creditor of the State banks, that is, it held more of their paper than they held of its paper. That was probably the main object of its being,—that it would hold other banks from over-inflation, and so "preserve a sound and uniform currency." Yet in doing this even with

moderate discipline, it was denounced as a "tyrant." In all payments to the Government, other banks had to convince the Bank of the United States, that their notes were equivalent to specie. Of course, the Bank had to restrain itself at all times to hold this commanding position. When it failed in this respect, as in 1818, it failed to maintain specie payments. It finally lost the regulative power in 1832, when its loans and issues became excessive.

Other important considerations that must count weightily in the summing up are the gains and losses accruing to the Government on account of the Bank. There were times when, if one listened to its enemies, it must have appeared as if the "vampire" was sucking the life-blood of the Government as well as of the people. The reports of the Government's proportion of the losses incurred the first two or three years of the Bank's existence, and which were due entirely to the fraudulent manipulation of its affairs by men who had been given place in its management more on account of their political influence than for their standing as bankers or financiers, created a popular impression that it was a losing venture for the nation which probably was never entirely overcome. Yet it is a matter of clear record that the Government's gains by it were large. During the seventeen years that it was the national depository, the public deposits averaged about $28,000,000, and at the average exchange, or transfer charges, of one-fourth of one per cent, the sum saved was $60,186 a

year, a total of $1,023,161. The Bank disbursed $30,000,000 as commissioner of loans and pensions, at a saving to the public of two per cent, another $600,000. It paid out on account of the public debt $200,000,000, which, estimated on the basis of the cost to the Government before the Bank was established, saved it between $500,000 and $600,000. This added to the other items makes a total of at least $2,120,000. Mr. Biddle's estimates of the value of these services were higher.

At the start almost three-fifths of the individual subscriptions were in the public stocks, and one-fifth of the public debt was absorbed in the Bank's capital. When the shares rapidly appreciated, the Government took advantage of its right to purchase the stock at the subscription price. The Government made from excess of dividends over interest (on its own subscription) and the advanced price of the stock at which it finally sold, $6,093,167.07, this according to a report of the Comptroller of the Currency (Knox) in 1876. Added to the $2,120,000, it gives a grand total of $8,193,167, or more than six per cent interest on the Government deposits. But this is far from telling the whole story of its benefits. When it is remembered—as it seems never to have been by the political decryers of the institution—what the experience of the Government was during the years from the termination of the first Bank to the beginning of this one, its value of what may be termed an intangible kind, must be reckoned

greater than that which is shown as a money gain; and it will be observed that in the latter, no attempt is made to figure the whole profit that accrued from the appreciation in the value of the Government securities and the absolute security of its funds.

The Government's losses by local banks has already been referred to (p. 160). It is safe to say that when the results of the panic of 1836-37, caused by the Bank war, were counted, the Government's losses were much greater than the $6,400,000 figured by Sumner, up to 1837.

CHAPTER VIII

THE Bank of the United States being now no longer a national institution, it is not intended to give in detail the successive steps by which it finally fell into disgrace and ruin. Enough will be related, however, to show that it had received its death wound in the contest with Jackson, and that without reasonable doubt the expedients which it was forced to during the years of conflict, turned the management to the speculative policies, which decided its fate.

The inflation and speculation that began late in 1834 were rampant until the summer of 1836, when the bubble was ready to burst again. Great impetus had been given to railroad building, and immense amounts of their shares had been floated. There had also been a rapid multiplication of local banks so that "in order to take the place of one bank with $35,000,000, which after all did not go out of business, there were organized 340 banks with $99,000,000 capital." The mania for banks became so great that formal riots occurred, and strong men were hired to stand in line when subscriptions opened. Many subscribed in order to sell immediately at an advance. There was always

hope of the prospective bank becoming a Government depository, "which intensified the notion already entertained by those who were desperately in debt, that the best way to escape was to join together and make a bank." Niles is quoted as saying, "to make a bank is the great panacea for every ill that can befall the people of the United States, and yet it adds not one cent to the capital of the country."

This was the logical effect of the demagogic utterances of the Executive about the tyrannous monopoly of the monster which drew the money away from the people. Now that the monopoly was foiled, why should not all the people have some of that bank porridge of which they had been so long deprived? It was a fact that a great many small subscribers to the new banks believed they were at last coming into their own. They believed, too, that the processes of banks created wealth and relieved distress. When a calamity occurred it was at once suggested that a bank be started to relieve it. It has already been shown how banks of the State were started to lend to people who were in debt and who could conveniently endorse for each other. It was easy for the States to make paper money, to pay it out at a great depreciation, and to take it back at its face value. The whole system encouraged improvidence and dishonesty, giving the impecunious the notion that they were under neither legal nor moral obligations in their daily transactions.

The banks that got the Government deposits were actually encouraged by Taney, the Secretary of the Treasury, "to loan them to the people." It may readily be guessed that they needed no urging to go into rash operations, loaning on anything and anywhere that brought large interest rates. Many banks that got the Government deposits under this paternal injunction used the same to conform to the Treasury requirements,—that is, to put themselves into the condition required under the Treasury rules to receive deposits, their previous statements having been fraudulent. There is reason to believe that the Government winked at these evasions, and that as a rule those banks that were culpable were in close political affiliation with it. "To get into the upper circle of the democratic magnates and handle the public deposits was the ruling ambition," as Schouler states it.

The financial storm was brewing in Great Britain, as well as in America; several banks over there with a large number of branches failed. The Bank of England carried several that would otherwise have dropped out. English investors had gone largely into American stocks, having been favorably impressed with the fact that the national debt had been entirely paid. Besides over-estimating the significance of this, they did not consider the distinction between the nation and the States, many assuming that the strength of the former was reflected in the latter. They learned their mistake

by sad experience. Early in 1836, the price of cotton fell four or five cents a pound in England, making the price in our Southern States 30 to 40 per cent lower. Those who had bought extensive cotton lands on credit found themselves unable to make payments, and the first failures of the great panic were cotton houses in New Orleans. The whole cotton belt was as usual in debt to the North and East, and being unable to settle, the credit of the Eastern merchants was curtailed in England. Thus the entire credit system of the two nations was badly shattered.

By January, 1837, a number of banks in the East refused to receive on deposit checks on other banks, and in that month the Board of Trade of New York memorialized Congress in regard to the deranged state of the currency and exchanges, asking its interposition to remedy the matter. The Board also urged that another national bank should be chartered, particularly for the reason that it could regulate the local banks. "In short, such an establishment has existed and is familiar to the habits of the country, and your memorialists desire nothing better than to return to that system under which the commerce and the currency so long prospered." The New York bankers as has already been noted, turned to Biddle for help. He is found going to New York and increasing their discounts $1,500,000. His bank issued bonds payable in London for $5,000,000, which were sold for bills

receivable of the merchants at 112½ to enable them to meet their foreign payments. The Bank's shares then stood at 120. The Bank also engaged in cotton buying and undertook the hazard of caring for the crop. This venture may be fairly regarded as the beginning of those reckless operations which, together with its heavy volume of loans on internal improvement stocks, in the end bankrupted it.

Knox calls attention to the fact that the Bank did not adopt the disastrous policy of loaning extensively on stocks till all hope of a re-charter by the Government was given up; and then, during 1835 and to March, 1836, such loans were increased from $4,800,000 to over $20,000,000, the securities being largely turnpike, canal, railroad and land company issues guaranteed by the States. Like most other creditors, home and foreign, the Bank apparently was deceived in believing too confidently in those enterprises and the good faith of the States.

Almost as soon as the pressure began, the deposit banks showed their weakness by suspending specie payments. On the tenth of May, all the New York city banks did so, and were soon followed by the Philadelphia banks, including the Bank of the United States. Biddle has been criticised for taking this step. It was understood that in the summer of 1836, he hoped the Government would find it necessary to return to his Bank to transact its business. Good authorities have declared that had he continued specie payments a month after the other

banks had suspended, he would have forced the administration to employ his Bank under the law as its sole fiscal agent, and have scored a grand triumph. This is probably true, but is it likely that under the circumstances he could have held on alone for a month? It is true, Biddle declared that his Bank could have gone on paying out specie, and he excused his act by saying that as others had to suspend, he thought the people of Pennsylvania should not be compelled to pay in different money from those of other States. This is more plausible than explanatory of the Bank's real condition.

It must have been some satisfaction to Biddle to see the disappointment and humiliation of Jackson, when the deposit banks betrayed him. The feeling of the administration and its supporters toward those banks was extremely bitter. Many felt that the Jackson party had broken down the big Bank in the interest of the local institutions, had loaded them with favors and extended them every opppor-tunity to justify the confidence reposed in them, only to have it shown that they were ungrateful and selfish. Jackson felt the disgrace of the situation keenly. He wrote July 9, "The history of the world never has recorded such base treachery and perfidy as has been committed by the deposit banks against the Government, and purely with the view of gratifying Biddle and the Barings and by the suspension of specie payments, disgrace, embarrass and ruin if they could their own country." A year

before the Administration had been severely censured for issuing the "specie circular," which was Jackson's idea, although Benton had previously introduced a resolution for a similar trial, which failed to pass. The circular was an order from the Treasury Department, directing that nothing but gold and silver should be received in payment for public lands. The President intended it to stop inflation and to act as a panacea for the gathering financial ills. But it worked adversely, and brought out such a storm of protest from the whole business community that a bill was passed by Congress modifying the order. However, Jackson failed to sign it. A special session of Congress was called in September to consider relief measures. In his Message to it, the President declared that while the local banks had for a while fulfilled the uses for which they had been selected, "when it became necessary after the Act of June, 1836, to withdraw from them the public money for the purpose of placing it in additional insititutions or of transferring it to the States, they found it in many cases inconvenient to comply with the demands of the Treasury, and numerous and pressing applications were made for indulgence or relief." As a matter of fact the Government had large surplus funds locked up in the suspended banks, the experiment with them having failed on the first test. It was in this Message that he proposed the independent treasury system, with gold and silver as the sole medium for the transaction of

Government business. This proposition became a leading political question and split up the Democratic party. It was supported by the radical or loco foco wing and opposed by the more conservative element.

The rise of the loco focos, beginning in New York, was a peculiar incident of this trying period. They threatened the public peace, and finally had to be subdued by the militia. They declared that all the banks were in league with Great Britain and the European monarchies to plunder free Americans by draining off their gold. At one time they declared all banking a fraud, and at another meeting resolved that the banks ought to help poor men to emigrate, and that Congress ought to donate to each one from 80 to 200 acres, according to his needs. Nor was it alone they who proposed visionary schemes for relief. Public meetings were held all over the country, and the expressions of the people as a rule showed that they were quite as unwise in planning remedies as they had been in their agitation in support of the President's policy which culminated in the crisis.

A good deal of credit was given Biddle, after the force of the panic was broken, for saving solvent merchants in Philadelphia, and assisting New York, as previously noted. In August, 1838, a branch of the Bank was re-established in New York under the title, Associates of the United States Bank in New York. It was afterwards claimed as an independent

concern. It loaned the State $300,000 that year to repair serious damages made by a freshet in the Juniata Valley, and took its chances of reimbursement from the Legislature. It was freely declared that resumption of specie payments was not possible until the Bank was again made fiscal agent of the Government. Biddle's influence both in Philadelphia and New York was yet strong, and he was regarded by many as a great financier and a safe guide. The deposit banks resumed slowly, first with small notes. Biddle again missed his opportunity in not being the first, nor among the first, to resume, and that weakened his leadership. After Congress repealed the "specie circular" he made it a cause for resumption, which was characteristic of his plausible nature. It is probable that he helped defer resumption as long as possible.

In January, 1838, Charles Kuhn attempted to force a forfeiture of the Bank's state charter under that section of it which provided that if it should ever refuse to pay any of its obligations in specie, the holder thereof might apply to any judge, who should give ten days notice of a trial, and if the fact was substantiated, should so certify to the Governor. That official should then declare the charter forfeited. During the ten days' delay, the Bank paid the note held by Kuhn with 12 per cent interest, and it was held that the former owner of it could no longer bring about a forfeiture. Kuhn tried again, but failed through a technicality.

One thing that gave great dissatisfaction was the continued circulation of the notes of the old Bank. In February, 1838, the Senate Committee on the Judiciary made a report condemning the Bank for keeping these notes out, and submitted a bill making it a misdemeanor for the officers of any bank whose charter had expired to issue its notes, punishable by fine not exceeding $10,000, or imprisonment not exceeding ten years, or both. The prison penalty was changed to not less than one, nor more than five years, and the bill passed. Late in 1838, the Bank was reported in New York a large borrower on its post notes, and it was this season that it went more recklessly into cotton operations at New Orleans. Thomas Biddle, heretofore referred to, was its agent.

It established an agency in England in charge of its cashier, Jaudon, who soon incurred the enmity of the Barings, and the Bank of England, by his operations. The Barings refused to keep their agreement to meet the drafts of the Bank, and the Bank of England refused to open an account with them. In 1839 there were short crops in England, distress in the mill sections, and prices of cotton fell. This made a gloomy outlook in the South and West. On March 29, 1839, Biddle resigned the presidency of the Bank, and always claimed afterward that it was entirely sound at that time. After his resignation it appeared that the cotton operations showed a profit of $1,400,000, on total transactions $8,900,-

000, of which profit $800,000 went to the operators and $600,000 to the Bank. The $800,000 was drawn out between March 25 and May 22. It was in this year that the Bank loaned $1,000,000 to the State of Illinois, which was spent on the Illinois and Michigan Canal.

October 9, 1839, the Bank failed on its own obligations, all the Philadelphia banks undergoing runs. The stock of the Bank fell to 93¾, and its notes were at 11 per cent discount in New York. It became known that the Bank had continued to borrow and expand in spite of losses which it concealed by absence of official reports, and besides these losses, a large amount of its means were in inconvertible securities. After a partial readjustment the Bank continued in a crippled condition, and with greatly weakened confidence. From the time it went under the State charter it had paid a 4 per cent dividend semi-annually up to July, 1839. The regular dividends deluded small investors after the wise ones became aware that it was a mere shell, and it was doubtful whether it ever had the right to pay a dividend after taking the State charter. In April, 1840, the stock was at 78, and the Bank is reported to have had lobbyists at the Legislature to prevent an act making resumption of specie payments mandatory. A bill was passed for resumption two years later, and subsequently an investigating committee said the lobbyists had duped the Bank and extorted money from it, but had never

paid out any of it to legislators. But other evidence showed flagitious intrigue and corruption. It was shown that the amount drawn from the Bank for that purpose was $131,175. It now became involved in the political intrigue of the State, the Bank party trying to give the control to Van Buren.

The stockholders of the Bank gave out a report, January 4, 1841, showing a list of the securities it held, and which were shown to be among the poorest on the market. Experts estimated the loss at the then market price at $17,300,000. The stock immediately fell $17 a share. On the 15th, however, the Bank resumed specie payments, as did all other Philadelphia banks, and in the next three weeks it paid out $6,000,000. Then it failed again, February 4. The deposits were then stated at $2,200,000, notes outstanding $2,800,000, not including some $600,000 of the old Bank, supposed to be lost. On this failure the stock fell $30 a share. The Bank had eight agencies outside of Pennsylvania and three offices in the State. At this time the stockholders in Pennsylvania numbered 1481, in the United States outside of Pennsylvania, 1658, there being 1,390 foreign holders. Out of the $35,000,000 capital, $27,000,000 had gone into foreign hands, while $6,000,000 was held in New York and $2,000,000 in Philadelphia. It was remarked that a very large amount was held in the islands of Guernsey and Jersey.

These were years of financial demoralization, in

which legislative regulation of banks had but slight effect in maintaining security. In 1836, the New York Legislature hastened to suspend the Safety Fund act, under which any bank which refused to redeem its notes on demand was to be enjoined by the Chancellor, placed in the hands of a receiver, and its charter forfeited. It may be noted in passing that this system of Safety Fund banks, by which a fund was provided by taxation, or subscriptions, has been referred to during the last few years in support of the scheme of bank guaranty under state laws. A large majority of the banks in the State of New York were in the system, and the measure of its success appears from the fact that in 1845 the State issued bonds to pay the creditors of Safety Fund banks that had failed, in order to relieve the system of the odium of bankruptcy under which it had suffered since 1842, the sound banks having been great losers through the operations of reckless or dishonest ones. It should be said, however, that the plan worked safely for several years after it was started in 1829.

The prostrate Bank now addressed a memorial to the Pennsylvania legislature, which was considering a measure repealing the penalties for suspension of specie payments. The memorial recited that the Bank had paid the State $3,022,662, and subscribed $415,000 to railroad construction, and had loaned the State during the five years of depression $8,620,000. It does not appear that there were

losses from these loans, but the amounts paid in bonuses undoubtedly were more than conditions justly warranted. The act noted was passed in March, 1841, over a veto.

At a meeting of directors, April 17, 1841, it was voted to accept the relief bill, to reduce capital, and to change the name of the Bank. But there was no salvation for the concern. A committee of investigation reported that the capital was sunk in bad debts and in stocks which at the most favorable view could not be realized from for a long time. On the estimate of the committee, the assets amounted to $14,800,000 with which to meet $32,500,000 of capital, the Bank owning a part of its own shares. The debt in Europe exceeded the quick bills receivable here, and it was shown that during operation under State charter, the Bank had taken $31,000,000 in stocks, etc., in settlement of loans. There had been a heavy loss from the cotton deals left by Biddle, one-half of which he settled, with interest, by giving Texas bonds for two-thirds, and promising such bonds for the remainder. It is said that the accounts were in such condition that the actual truth about the cotton profits and losses never was disclosed. The other half of the ascertained amount of losses was paid by Cowperthwait, the succeeding president, and Wilder, a director, one-fourth each. The outstanding shares were then estimated to have a book value of $46.94 each.

Then arose a controversy between the investigat-

ing committee and Biddle, who was severely criticised by it. He replied in a published report, stating that its animus grew out of the fact that the Bank had supported the Reading railroad, while members of the committee were interested in a rival line. He denied that the Bank ever owned a bale of cotton, and defended his connection with the cotton operations, claiming they had helped pay the debts of the American people, by making a market, had corrected the exchanges, had even saved the Bank, and enabled him to "save" New York. He asserted that his personal estate had been sacrificed in the interest of the Bank, and still declared that it was sound when he withdrew from it. He continued to write in his own self-defense, but the public no longer placed much confidence in his words. Good authorities agree that in his articles and letters, written subsequent to 1836, there is evidence of insincerity. Gallatin claimed the Bank had since 1837 been the cause of delays in resumption and, further, that "in every respect it has been a public nuisance." "The mismanagement and gross neglect which could in a few years devour two-thirds of a capital of $35,000,000 are incomprehensible, and have no parallel in the history of banking."

But it is not so wonderful when the conditions of those years from 1836 to 1841 inclusive are considered. The panic of the first part of this period is well known, but it is not so generally understood

that it continued practically for five years. Local banks with a combined capital of $70,000,000 failed in 1841, and the number of defalcations and embezzlements was astonishing. Only in two or three cases, it is said, were the offenders punished by law, and it became sadly apparent that such commercial irregularities could not be reached by legal process. Commercial integrity was debauched by the methods in vogue. Banks especially seemed to be superior to the law.

There was even now a lingering hope that the Bank could revive, but as suits against it multiplied, it was abandoned. Over 100 judgments were rendered against it from $100 to $100,000. Its liquidation was under the most adverse conditions, and there was dissatisfaction on the part of everybody interested. An assignment was made of certain assets to cover certain liabilities; at New Orleans the Government levied on the assets to recover on the dividend held out in the French draft case; the court sustained the assignment and cut off the claim. Assignments and litigation were the funeral rites, and they were prolonged. In 1851, a Dutch stockholder started after the fragmentary remains for residuary interests, and the stock again took an upturn, from nothing to $2 a share; but a decision that the Bank was liable for the bonus to the State for the term of its charter, nipped the boom. After that decision the holders applied for an act to wind up, and appointed five trustees, to

whom a general assignment was made. A distribution was made in 1853. An act of February, 1855, gave claimants authority to divide the leavings under the third trust, and in August the final dividend was advertised.

It appears that the notes and deposits were all paid. Other domestic creditors got about 80 per cent, Sumner thinks. The stockholders realized nothing.

Biddle was brought to trial after the failure of the Bank, for mismanagement, and acquitted. He died February 27, 1844, aged 58, broken in spirit and fortune, vilified by those who flattered and sponged off of his generosity in the days of his power. Brilliant, generous, and resourceful, he was "led astray by prosperity."

The real value of this story is in its illustration of the folly and danger of admitting that intricate financial and economic problems are matters about which popular opinion may safely be consulted. If partisanship or traditional preferences enter into their consideration, appeal is at once made for the popular support, with a corresponding effort to influence the public mind or to trim in accordance with what appears to be the popular feeling.

The consultation of the sentiment of the masses on so technical a subject as that of a currency system,

falsely implies that they have the training necessary to an intelligent judgment of it. Common sense might, of course, go far to offset that lack, if the people were left free of ulterior influences that, when great issues are up, too often seek to arouse their suspicions and becloud their comprehension. Citations of instances in which confusion of the public thought have worked disastrously are needless after the recital of the Bank case. However, no subject of legislation affords so many examples of the harmful influence of popular error as public finance, considered in its broadest scope. The tax systems in operation in most of the States are for the most part ridiculed by intelligent students as embodiments of ancient error. Their inefficiency is pointed out, their results of inequality and evil effects on morals, with the further fact that their main principles have been discarded in other countries; yet it is found next to impossible to secure real reform because of the ignorance of the great majority on the subject, coupled with prejudice in favor of traditional ideas. The late David A. Wells showed what tremendous losses the Government suffered during the Civil War period through mistakes in internal revenue legislation, the result of Congress ignoring the urgent advices of the Revenue Commission (which it was compelled afterward to accept) and listening to uninformed opinions conforming more to sentiment; and which "viewed from the standpoint of finance, economics, and morals, con-

stitute one of the most interesting, instructive, and disgraceful chapters in its history."

These facts are not to be construed as any disparagement of popular government any more than should the fact that the Government employs scientists—persons of particular qualifications—in other matters depending on its authority, such as sanitation, coast defenses, etc., instead of submitting the problems to popular decision. The evils of the Bank war is primarily attributable to a political system that cultivated class prejudices. It appealed to the ignorant, fear or envy of wealth, and inspired a hatred of moneyed institutions. It is made clear by the facts given that collectively the people, with their perverted notions about the functions of banks, and of what should be expected of them, were incompetent to pass upon the merits or demerits of the United States Bank. The tendency was constantly to disqualify them for so doing. It was the scheme of demagogism to appeal to their passions, and to cajole them by false alarms into supporting the most irrational theories.

As for Andrew Jackson, there is no intent here of undue reprehension, nor is it in order to consider his qualities and achievements aside from his relation to this subject; yet one is fully warranted by the evidence in saying that no man of America who has left as large footprints on its historical sands had more selfish political ideas. He was a perfect autocrat professing democracy, his administration

being the most striking example we have had of arbitrary, one-man power. It has been observed that the example of his turbulent nature left its effects on the nation. The era of his presidency was marked by unusual violence. It was the heyday of unrestraint, of riots, burnings, mobbings. Public service was debauched, and for the first time seized upon for political patronage. The course of the administration, which, as Schouler says, was wilful beyond all others in our annals, set scant example of disinterested patriotism or ideal citizenship. Its influences were fraught with evil that penetrated deeper into our civic life, and has proved more permanent, than those of any other. These most serious facts are pertinent to a judicial consideration of the calamity wrought by the destruction of the Bank of the United States.

The most disinterested authorities have not found in the allegations and charges made against the Bank, nor in the testimony which was alleged to support them, any convincing evidence that the attack was made from pure motives. We have seen sufficient proofs of a deliberately formed conspiracy to make of the Bank an ally of the Jackson party, or to ruin it. The plotters were the closest friends and political advisers of Jackson, several of them men of notoriously rabid dispositions, and moved by personal animosities. They understood his implacable nature and his prejudices. They also understood the temper of the people and the senti-

ments that could most easily sway them. Indeed it was not difficult to make it appear as a people's cause. Without the credulity, the rural and sectional prejudices of the people, the undertaking could not have succeeded. Jackson based his main justification for seeking to destroy the Bank on the ground that the people wanted it done; that they knew what a harmful and dangerous monster it was. Yet from the time of its resuscitation after its political maiming in 1818-19 to the advent of Jackson, the people had enjoyed a safer banking system, a safer currency, and greater facilities of exchange than for years before. They had suffered no panics, the incipient one of 1825 having been suppressed by the action of the Bank. They had experienced a period of unusual prosperity. There had come to be less fear of monopolistic power. Political opposition to the Bank had practically died out. The public finances were in excellent order, the debt being rapidly reduced, and the operations of the Treasury were carried on with convenience and unquestioned safety. The people were not complaining. It was only after Jackson began telling them that they were being robbed by foreign capitalists, that they were menaced by a monster of iniquity, that their liberties were threatened by a tyrant monopoly that was seeking to overturn the democratic Government,—it was only after he and his scullion abettors, subordinating principle and patriotism to a nefarious design, had poisoned their minds,

reanimated their old passions, and revived their waning envy, that they began to cry vengeance against the Bank. They followed the cry; Jackson sounded it.

When the harm was done, and the people suffered for it, he beguiled them for a time into attributing it to the Bank, but soon many of them saw through the fog of mendacity. He left the presidency with a blight on his popularity, and never regained his former prestige, even with the people of his own State. He did not entirely escape retribution for his offense.

That the destruction of the Bank was a political crime has been conceded by the clearest thinkers in America and abroad. While party fealty here has caused some difference of feeling on the matter, holding those subject to certain traditions to maintain that Jackson's action was warranted, there has been little or none abroad. Economists and historical writers of Europe, both at the period and since, have scathingly denounced Jackson's course. Tocqueville, who was in this country at the time, saw danger in the precedent. "They aroused the local passions of the blind democratic instinct of the country to aid their cause; and asserted that the Bank directors formed a permanent aristocratic body whose influence would ultimately . . . affect those principles of equality upon which society rests in America." And Tocqueville was a friend of our democracy.

Partisanship is not as bigoted now as in those days, nor are the people as hysterical over apparitions produced to order in political seances; but popular opinion is still easily affected, the average popular mind is not yet trained in the science of finance and economy, and the nation has given evidence in very recent years that multitudes may be misguided on those subjects. They discover the deception in time, but not always before great harm results. Any effort to dictate what change shall be made in our currency and banking system by appealing to all predilections, or any attempt to influence the decision of those who by position and earnest study of the subject may fairly be adjudged best qualified to determine, by declaring any particular plan is or is not in harmony with popular or sectional sentiment, will be merely to repeat the follies that have been so disastrous in the past.

As to the nature of the Bank, and the system under which it operated, there may be more room for diversity of opinion concerning its adaptation to present conditions, or whether it was the best that could have been devised in its time. It seems that some writers have had their doubts. Sumner sees no reason why the Government should have become a shareholder in it, and thinks adequate national supervision, with less cause for Governmental interference, could have been maintained without it. Admitting some force in the opinion, it is not likely that even if the Government had not been implicated as a partner

in the exercise of tyranny over the people it would have escaped Jackson's designs. Others, while arraigning his motives, seem to condone somewhat the destruction of the institution, simply because it provoked political cupidity, and was a standing temptation to its advances. But this certainly is more of a reflection on our political morals than on the propriety of the banking system. Catterall believed it was the most logical system we have ever constructed and that a bank performing similar services today, and similarly organized, would be far more valuable than then. His estimate of its merits and the loss in its destruction furnish further material for thought:

"Up to the period of the Bank war, the connection between the Bank and the Government was an immense benefit to both, but particularly to the Government. But having stated this conclusion, there is a corollary which is just as inevitable. With the growth of the Union, with the increase of national wealth and population, the Bank would have been progressively useful. From this point of view it becomes obvious that Jackson and his supporters committed an offense against the nation when he destroyed the Bank. The magnitude and enormity of that offense can only be faintly realized, but one is certainly justified in saying that few greater enormities are chargeable to politicians than the destruction of the Bank of the United States. It was the overthrow of a machine capable of incalcul-

able service to this country—a service which can be rendered by no bank not similarly organized. . . . It will have to be acknowledged that the old Bank, in its services to the Government, was far superior to any other banking system known in this country." (p. 476)

Whether this be conceded in its entirety, it emphasizes the conclusions herein drawn from the Story of the Bank, and adds its own note to the warning against empiricism.

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